RAILROAD MELONS RATES and WAGES

Charles Edward Russell

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A Handbook of Railroad Information

BY

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To the wage-earning workers, whose labor, skill and fidelity to the public's trust enable the inadequate and broken-backed railroad system of the United States to be operated and me to travel on it about my native land, I inscribe these records with my humble thanks.

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RAILROAD MELONS RATES AND WAGES

CHAPTER I

THE BEGINNINGS OF THE STORY

The most important facts about the American Railroad System are the facts that are least often heard of when we discuss our railroad problems.

Whether they are not mentioned because they are not generally known or because they are intentionally side-stepped makes no difference. The whole subject hinges on them and here they are:

1. A railroad is a highway.

2. A highway is a public thing. Being public it is part of the machinery of government. Therefore it belongs to what is called the sovereign power. In a democracy sovereign power means the power of the government that the people have elected to represent them and do their will.

3. There cannot properly be any such thing as the private ownership of a highway.

4. Railroad companies do not own the highways they operate. All they can own is the investments they have made in the things with which highways are operated.

5. In operating a highway a railroad company acts as an agent of the government—or of the state, which

means the same thing. The highway exists only to serve and accommodate the public. The state can, if it chooses, and often does, operate the highways itself. In the case of railroad highways it has been held in this country that they can be better operated by companies than by the state. Therefore the state makes an arrangement with the companies to do this operating.

6. In return for the public service that the company thus performs the company is entitled to compensation. This compensation may rightfully take the shape of a just and reasonable profit upon money the stockholders have invested in the enterprise.

7. All profits in excess of this just and reasonable profit belong not to the company but to the public. They are, in fact, public trust funds. They are earnings, not upon the property of the company, but upon the property of the public. The only property the company has is the money its stockholders have actually invested in the enterprise. The highway remains the property of the public.

8. The government, acting for the public, has the sole right to say what use shall be made of these trust funds.

9. Before the introduction of railroads, arrangements of this kind were made with companies that operated turn-pike highways. In such cases it was usual to return to the public all profits in excess of the rate fixed as just and reasonable compensation.

10. This was done by reducing the tolls or turnpike rates that the public must pay.

11. The railroads took the places of the turn-pike. In principle they were not different.

The foregoing is the true relation of a railroad company to the public. The notion that there is or can be any other kind of relation between these two is the mere product of busy propaganda. It has no basis in fact. A highway is always a highway so long as it is open to public transit. It is always "a specified line of travel," which is the standard definition of a highway. A highway does not cease to be a highway because two steel rails are laid down upon it or because the vehicles the public uses upon it are of one pattern.

It is not merely custom that makes a highway an institution of the government or the state. Governments could not exist on any other basis. This becomes clear as soon as we stop to think about government as it really is. The government of more than one person can be carried on only by means of communication. I can govern myself without communication but I cannot govern anybody else without it. Plainly enough then, any power that controls communication is the power that governs. Because it controls communication it becomes in reality the sovereign, no matter what it may be called.

This fact is shown and always has been shown in war. When an army invades some other country's territory it tries first to seize the highways. When it gets these it gets everything else.

This leaves just two ways of looking at the relations between the railroads and the government. The government owns the highways and the railroad companies are the government's agents to operate them. Or the railroad companies own the highways, are the sovereign power and no Congress, Legislature

nor Interstate Commerce Commission has any right to limit them or interfere with them in any way. They can charge what rates they please, run their trains as they please, pay what wages they please and they can summon the military power of the nation to enforce their will.

Between these two theories there is nothing. Nobody has suggested or can suggest a middle ground. It is one thing or the other. The American courts have again and again upheld the first theory, the idea that the government is the sovereign power and the companies are its agents. The railroad companies themselves no longer openly contest it. They seek only to dodge it and belittle it and pervert it, trying, in spite of all to insinuate and proceed upon the theory that they are owners of the highways.

It is to this attempt that we owe a large part of our railroad problem.

Highways are public not private. Railroad companies are agents, not sovereigns. Railroad rates and fares are taxes levied upon the public to collect for the operating agents (which are the railroad companies) a reasonable compensation for their services. When these rates and fares collect more than that reasonable compensation, the excess belongs not to the companies but to the public.

When railroads began to supersede turnpikes as an improved means of transportation these facts were still recognized. The first railroads were built with public funds as public institutions.

But before long in two countries of the world, the United States and Great Britain, these facts began to be obscured. Another idea grew up about rail-

roads. In both countries certain practices came to be common that utterly denied and trampled upon the ancient principles about highways. These practices grew in boldness and extent until they were the most startling and dazzling chapter in the history of the world's finance. Sometimes the operations they involved were criminal, sometimes semi-criminal, sometimes merely immoral. The swiftness with which they brought fortune eclipsed every other consideration about them and made them the unequalled romances of commerce. No gold mine ever made men rich with the like rapidity. They had all the fascination of treasure hunting with much greater rewards.

They left behind, however, certain consequences that have profoundly affected this generation and continue to affect it.

It is only because of these practices that we have now in this country any such thing as a railroad problem. Not one phase or part of that problem is due to anything else.

About any other kind of history we can be as indifferent as we like. Something that happened fifty years ago in politics or on a battlefield we can read about and forget. It was fifty years ago—what of it? The actors are all dead. The scenes are all changed; let us think about something else. But about these chapters of railroad history it is different. We cannot shove them aside with the notion that they belonged to our grandfathers' times. They are not really records of by-gone events. They are accounts of something that happened yesterday, is

happening today and will happen tomorrow to every-one of us.

The men that did these things have passed out of sight. The things they did remain and come to tax and perplex us all day and look into the window all night. Nothing I shall read in any newspaper today about anything else, no matter with how big a head-line it may be printed, will mean as much to me in so many different ways as the practices that grew up in this country when railroad companies began to evade the ancient principles of the highway.

I purpose therefore to tell in the pages following these stories of financial adventure exactly as they occurred.

To that vast majority of the population that earns daily bread by daily exertion, this will be a narrative of strong personal interest. Three classes in that majority first of all ought to find it particularly ab-sorbing.

First, the railroad workers. They will find in it the reason for all the troubles they have had or are likely to have with the company that employs them. They will find in it no less the reason why their wages yield them so little beyond the barest necessities of life.

Next, the vast aggregation of householders of limited means. They will find here the exact reason why, no matter how much prices may fall at the farm and for the stock-raiser, the cost of living is always so far above the range of those prices.

Third, the farmers. For they will understand from these records why they get so small a share of the high price the householder pays for farm products,

The traveler, also, may take some note, after these, for he will understand why the price of his tickets has doubled in twelve years. The shipper may read with advantage because he will be enlightened here about his freight bills. In fact, there is scarcely an element in the country that cannot with profit and gratification peruse the simple annals of our railroad history—except the element, small in numbers, that continues to reap in one way or another the fat rewards of these sinister achievements.

With this explanation, we are ready to begin the history and will start, if you please, with a railroad famous and eminently respectable.

CHAPTER II

THE NEW YORK CENTRAL LINES

A. The New York Central & Hudson River.

Rather more than seventy years ago there were dwelling in the City of Syracuse, New York, certain gentlemen firmly convinced that all the graft had not yet been gathered from the railroad business.

Yet to the casual eye the tree must have appeared to be fairly well picked by the ambitious financiers of that day.

The State of New York and many counties and towns therein had gone to the length of lending to various gentlemen large funds from the public treasuries to build lines of railroad in many directions.

These loans had amounted to the nifty total of $50,048,496. The innocent idea of the public officers had been that the sums thus advanced should be repaid to the public treasuries from which they had been taken.

The gentlemen that had been thus benefited at public expense had another idea about that. They never repaid any of the loans.

With the money of the public they had built railroad lines. These lines they had taken for their own private property, keeping also the money with which the roads had been built.

The inappreciative public had not viewed these things with enthusiasm. To be despoiled of its funds

to make railroads for individual profit met with little applause and there was a general notion growing up that this order of benevolence had gone far enough.

This was why so many persons thought the Good Things had been about picked off the railroad tree.

The gentlemen of Syracuse, on the contrary, had a notion that such Good Things were only beginning.

It was about the year 1850. The railroad companies of the day were small affairs compared with ours. Eight of them, endowed with funds from the public treasuries, had built eight separate lines connecting various cities between Albany and Buffalo, so that there was a continuous railroad highway but in eight separate sections.

One of these sections was the Syracuse & Utica Railroad Company which had the line between these cities. It had been built with public aid.

The hopeful gentlemen who were not in on this Good Thing formed a new company ostensibly to compete with the older line. It was called the Syracuse & Utica Direct, and had a capital of $600,000, none of which was ever paid in.

All of its possessions consisted of a franchise, some marks on a map, and much hope.

About the same time certain other gentlemen were engaged in unifying and consolidating the eight separate links of railroad companies between Albany and Buffalo.

The hopeful ones of Syracuse rang themselves in on this deal with their Syracuse & Utica Direct, their franchise, marks on a map and capital stock that had never been paid in. They threatened, if they were not admitted, to upset the whole arrangement by

building their road and competing. This did the business.

For their $600,000 of stock for which they had never paid a cent and which represented no investment in anything but hot air and hopes, they received $600,000 of veritable stock in the new company that was being formed, and $300,000 of what were called "premium bonds" of the same new company.

It was the amalgamation of these separate links and was called the New York Central.

Nominally ten companies formed the consolidation. Of these eight were veritable concerns and had tracks and cars and stations. The others were fake enterprises. Besides the Syracuse & Utica Direct there was the Mohawk Valley, a similar dream, but having a capitalization of $1,575,000—none of which was paid in.

It also had possessions consisting of a franchise, marks on a map and hopes. It therefore, had something to threaten with.

The eight that were real had each on its own account already an ample supply of water in its capitalization. Each had stocks that had never been paid for or bonds that represented no investment, or both.

Having been assisted, most of them, with public funds never repaid, they had thus in hand a Great Good Thing when the consolidation was suggested.

To make the consolidation the easier the new company, it was planned—that is, the New York Central—should issue $9,000,000 of "premium bonds" and these should be distributed free of charge to the stockholders of the railroads forming the combi-

nation. This meant $9,000,000 of additional water or fictitious capital.

Here is the way the capitalization looked after this liberal application of the financial watering pot:

THE NEW YORK CENTRAL CONSOLIDATION OF 1853

Original Railroad	Share Capital Including Water	Percentage of Bonds Allowed	Amount of Premium Bonds All Water
Albany & Schnectady........	$1,621,800	17	$275,706
Schenectady & Troy..........	650,000	..	....
Utica & Schenectady.........	4,500,000	55	2,777,000
Mohawk Valley*.............	1,575,000	55	888,250
Syracuse & Utica............	2,700,000	50	1,350,000
Syracuse & Utica Direct*....	600,000	50	300,000
Rochester & Syracuse........	5,608,700	30	1,682,610
Buffalo & Rochester..........	3,000,000	40	1,200,000
Rochester, Lockport & Niagara Falls	2,155,000	25	538,750
Buffalo & Lockport...........	675,000	25	168,750
Total..................	$23,085,600		$9,181,066

*Fake enterprises.

The Schenectady & Troy received no "premium bonds" and was penalized in a 25 per cent discount when the new stock of the consolidated railroad was issued. It was financially the weak sister of the combination.

These shiftings made the actual capital stock—not bonds—of the new company $22,923,000.

Of this sum much more than one-half was fictitious and represented no investment of any kind in anything.

The $9,191,066 of "premium bonds" issued to grease the ways for this consolidation became a part of the new company's indebtedness, in which capacity they performed antics in the annual reports that to this day dazzle every beholder.

To provide for them, account for them and conceal their real purpose, the books of the New York Central were cooked and for the next twenty-five years continued to be cooked annually.

In that time the company never returned a statement to the government of the State of New York that was correct. For more than twenty-five years these "premium bonds" were carried on the company's books as an asset, disguised as "debt certificates" and left without other explanation. As a matter of fact they should have been charged to profit and loss. However, this was all in the day's work for the railroad exploiters of those times. As we shall see, they cooked books or burned them or buried them as occasion might demand.

But however the presence of these "premium bonds" might be concealed by the accomplished book cooks of the New York Central they were in the capitalization, and are there now. From that day to this they have been a part of that total on which rates are based, increases demanded and wages determined. On this $9,000,000 of capitalization thus created out of nothing, we, the public, have so far paid $31,500,000. We have paid it in passenger and freight rates taken from us to pay the annual interest charges on these bonds. On the $900,000 of the same bonds delivered to the fictitious Syracuse & Utica Direct in exchange for its mark on a map, we have paid $3,150,000. The $600,000

of its fictitious stock has cost us so far $2,100,000—all for the stroke of a pen.

The hopeful gentlemen had reason for their hopes. Instead of the graft being out of the railroad business, it was just beginning.

Those of the Mohawk Valley dream fared relatively as well. For their marks on a map and bounding hopes they received $2,463,250, a sum that has been charged up to us ever since, for it too is still a part of the capitalization on which rates are charged to us and wages regulated.

Between New York City and Albany was at this time another railroad called the Hudson River. It likewise had been formed by the consolidation of smaller links, and in this case also the consolidation had been effected with fictitious securities added to the capitalization.

In 1869 its capital stock was $6,962,971, of which about one-third was actual investment of actual money. The rest was "premium bonds", stock dividends, marks on maps and other assets of fairy land. A stock dividend, which means the free present of more stock to persons already stockholders, had just been made. It increased the capitalization without increasing by a cent the amount of money invested in the enterprise. It also increased the basis upon which always thereafter the passenger and freight rates were to be calculated and wages regulated.

Railroad capitalization consists of stocks and bonds. Stocks are certificates of a right to share in the profits of the enterprise, if there are any profits, and a right to a vote in the control of the company's affairs. Bonds are mortgages on the property of the company but

carry no right to share in the profits nor the control. Bonds bear a fixed rate of interest. Stocks bear no fixed rate of interest, but dividends are declared upon them at rates the directors determine according to the profits, or alleged profits, or otherwise.

The interest on bonds must be paid as specified or the bondholders may foreclose the mortgage and seize the property. An effort has been made for many years to create the belief that dividends on stock are equally obligatory. It has succeeded to this extent that the courts have upheld the doctrine that railroad stockholders are entitled to a fair return upon the investment in the property.

This has been so twisted and distorted that many now assume it to mean a return upon the total nominal stock capital, whatever that may be or however it may have been created.

As a matter of fact, if the ancient principle of the highway had been adhered to, it could mean only the actual money actually invested in an enterprise.

Under this principle, two-thirds of the capitalization of the Hudson River Railroad was entitled to no return whatever for it was not money actually invested in the enterprise but only securities presented as gifts to the stockholders.

Because of this distortion of meaning, the fictitious stock issued to the stockholders of the Hudson River Railroad is still a part of the capitalization of the line and forms part of the basis for rates and wages in the disputes and issues of today.

Commodore Cornelius Vanderbilt, the original founder of the Vanderbilt fortune, now came into the story. He had turned his attention from steam-boat-

ing to railroad stocks and had made a historic and corrupt deal by which he had secured enough stock to control the old New York & Harlem, a line then independent of the Hudson River Railroad. It entered New York City on the east side and the Hudson River entered it on the west.

With the money he made in this deal, Vanderbilt bought into the Hudson River line until he was able to control that also. Soon after, he engineered a bear raid, frightened the stockholders of the New York Central, picked up the holdings of the timid and became the master spirit of that road also.

In both companies the secret of making railroad fortunes had been fairly well understood before his time, but he soon showed the experts of that day some new tricks that astonished them.

In 1865 the capital stock of the New York Central had become $24,136,661, of which a considerable part had lately been added as stock issued against surplus earnings.

This also is merely watering. The company piles up a surplus beyond its dividend requirements and interest charges. If the principle of the highway had not been abandoned, this surplus would have been regarded as belonging to the public and to be returned to the public in the shape of reduced tolls. In this case it was not returned to the public but stock equal to the amount of the surplus was issued freely to the stockholders, and thus added to the capitalization.

Upon this addition also the next year dividends must be earned, although it represented no addition to the actual investment in the actual enterprise.

Besides this, there had been issued $6,200,000 of

bonds convertible into stock. The bonds bore a low rate of interest; the stock was paying a high rate of dividends. To convert the bonds into stock was equivalent to making another present to the stockholders.

Three years later still further issues had brought the capitalization to $28,795,000 of which, more than three-quarters was water.

On watered stock and all the New York Central paid dividends of six per cent, in 1854, 1855, 1856, 1857; seven per cent in 1858 and 1859; eight per cent in each year from 1859 to 1865 and nine per cent in 1866 and 1867.

In 1867 this same railroad, making then nine per cent dividends, petitioned the legislature for permission to increase its passenger rates on the ground that at the existing rates it could not earn "a just and reasonable profit".

I emphasize this fact to show how old is this plea and how baseless. On all the money ever invested in the enterprise it was then paying more than 60 per cent a year.

By means of many issues of securities never paid for, by clever bookkeeping, by fictitious issues of capitalization the real profits were concealed and with huge effrontery more profits were demanded. I think it is worthy of much attention that then as now the device worked effectively. The legislature granted the increase and legalized the toll levied upon the public in the name of this fictitious capitalization.

Meanwhile the Hudson River Railroad had a capital stock of $6,962,971 (liberally watered) on which it was paying nine per cent dividends.

In 1868 this railroad performed an act then rather

new in the railroad business but since become so common it no longer attracts much attention. It "cut a watermelon" for the benefit of its stockholders. It doubled its stock, the new issue being put out to its stockholders at 50 cents on the dollar when it was worth more than par.

This is the meaning of "cutting a melon" in the phrase of the stock market. Something for nothing for the benefit of the Insiders is the essence of it. Melons line the whole inside of the railroad capitalization of America. They have made some persons very rich. The trouble with them is that in every instance they become an addition to that capitalization on which interest must be paid and dividends provided.

As the money to pay interest and provide dividends can be obtained only by levying passenger and freight rates and by squeezing wages, every melon, however fair to look upon in the eyes of the lucky stockholder, is a public burden that is carried long after the lucky stockholder has gone to his account.

This is one of the pertinent railroad facts that the railroad press diligently obscures. Yet it reaches to the pocket of every family in America.

Every melon that has ever been cut in the railroad history of the United States is still in the capitalization of our railroad system and has its direct relation to both rates and wages.

With the money derived from this stock issue at one-half its real value, the company bought St. John's Park, New York City, and destroyed the most beautiful pleasure ground in America. Total capital $13,-900,000, more than half water.

The word "water" is one most unpleasant in railroad

ears. It means capitalization that does not represent actual investment of actual money but is added in other ways. Determined efforts have been made to create the impression that it means excess of capitalization beyond the value of the property. It means nothing of the kind but only fictitious capitalization however created. With the value of the property it has nothing to do—and neither have we.

In both roads Commodore Vanderbilt had become the controlling influence. He was now to give a startling exhibition of his powers as a manipulator and sleight-of-hand performer with railroad properties.

Late on the night of December 19, 1868, the directors of the New York Central met secretly at his house. There they voted first on the outstanding stock of the railroad a cash dividend equal to seven and two-tenths per cent. Then they voted to each stockholder free additional stock to the extent of eighty per cent of his holdings at the time.

"Interest certificates" to provide for this huge graft and to be exchanged later for stock had been printed and prepared in advance. They were signed on the spot and each director annexed his share of the loot.

What Vanderbilt got amounted for those days to a staggering fortune and laid the foundation for others in the same family that still persist and mount upwards.

Some news of this remarkable performance seems to have leaked out the next day, which was Sunday. Before daylight Monday morning an injunction was served upon the treasurer of the company restraining him from issuing the "interest certificates" which

stood in lieu of stock. It came too late. They were already issued.

Even Wall Street gasped and revolted at this bold exploit. The ostensible excuse for the enormous melon was that the company had large surplus earnings, many improvements and great real estate investments to be capitalized and this was the way to capitalize them. The leading financial journal of that day pointed out that these assertions were utterly false. There could be no surplus because the total surplus earnings in fourteen years had been only $5,000,000 and these had been already capitalized. There were no improvements and no great real estate investments. The whole story, therefore, was merely an example of the sheer fraud and iron-faced lying that have always attended the railroad business in the United States. The men on the Inside had merely lied to the public while they rifled the public's pockets.

Yet the money obtained in this way was not all of the melons that graced the festive board on this occasion. Mr. Vanderbilt had quietly organized a little pool composed chiefly of members of his own family. He deposited in London $7,000,000 of New York Central stock as security for a loan wherewith to work his purposes. He then drove down the price of the stock from 135 to 84. This shook out the small holders and he picked up what they dropped, his total purchases being made at an average of ninety. When all the timid ones had fled he held his secret meeting, declared the cash dividend of 7 2/10 per cent and the stock dividend of 20 per cent, grabbed his certificates and locked them up in his safe.

Up bounded the stock like a balloon.

By these operations he made first $4,200,000 profit on the $7,000,000 of stock he had deposited for collateral; he had with a printing press almost doubled his fortune; and he now held all the stock the timid ones dropped in the decline he himself had caused.

Remember this incident the next time you find some newspaper or Congressional railroad lackey viewing railroad capitalization as some kind of Sacred White Cow. This is all there is sacred about it—the cunning to play tricks and the hardihood to get away with them.

Times were different then. It was no crime to criticise the rich and their methods. Commodore Vanderbilt by no means escaped without public scorn and wrath.

"Either," declared a prominent Wall Street journal, "the New York Central has had a much larger surplus income than appeared from its annual reports and the present dividend fairly represents it, or the representations of surplus earnings are fictitious and the dividend is unwarranted." In either case one would think the operation about on a par with safe-blowing or second-story work.

But expressions of public resentment availed not to check the melon-cutting. They never do.

All things being now prepared, Head Gardener Vanderbilt brought in the next fruit, being the consolidation of the Hudson River and the New York Central railroads, planned before the secret meeting at his house.

The manner in which this scandalous deal was carried out is worth your attention; particularly as you have paid for it ever since.

First, a new company was formed, the New York Central & Hudson River, with capital stock of $45,000,000, being 450,000 shares of $100 each. Of this the stockholders of the New York Central received $28,972,000 and the stockholders of the Hudson River $16,028,000. So far, good. But this left the $22,500,000 of "interest certificates", the flood of water that had been issued at the secret meeting at Commodore Vanderbilt's house, December 19. These were now provided for. The directors of the new company had been authorized to issue additional stock. They issued enough to enable the "interest certificates" to be exchanged into stock at par.

When this had been done it appeared that the stockholders of the Hudson River had really received $29,651,800 for their $13,900,000 of stock in the old company, while for their $28,795,000 the stockholders of the New York Central had received $59,605,650. In each instance the excess represented not one cent of investment but only insatiable greed and the rank misuse of the power to tax the public. Total capitalization of the new company $89,257,450. Water upon water and then more water.

The authorization of the new issue by which this result was achieved was so worded that while ostensibly it meant one thing, another and a very different meaning could be drawn from it. So great was this inconsistency that ever since thoughtful men have questioned the validity of the issue, and wondered what the courts would do about it if it should be brought to their attention.

Of the huge accumulation of water in the $89,257,450 of capitalization more than $50,000,000 consisted

of securities that were merely gifts of Cornelius Vanderbilt to himself and his family.

On this fictitious capitalization, amounting to a sum that seems to the reflective mind not less than colossal, the public has ever since continued to pay 5, 6 and 7 per cent a year.

To such a sordid and repulsive story nothing was lacking but rotten bookkeeping, and this was presently supplied. The water in the $89,257,450 of new capitalization included $44,428,000 of "consolidation certificates". For twenty-five years the annual reports of the Company were obliged to juggle with this item. Therefore every year $31,157,904 of the $44,428,000 was shoved into the "cost of construction" table along with buildings, bridges and the like. The remainder must have been divided among the other departments —"oil account", maybe, or "coal" or "stationery".

Such are the difficulties (and dangers) pertaining to this branch of horticultural effort.

Meantime, the watermelon was by no means the only produce that added millions to the fortunes of the Insiders. There were the fast freight line and the express company, both fertile in illegitimate profits.

The fast freight line largely disappeared after a legislative committee had turned upon it a certain light of investigation (in which it presented a very unwholesome appearance), but for many years it had been operated with great success. This was the manner of it. The gentlemen in control of the New York Central and allied railroads organized a fast freight company with themselves as the sole stockholders. Then they made a contract between themselves as the fast freight company and themselves as directors of the New York

Central by which the fast freight cars were carried with greater speed than other cars and on terms exceedingly and unfairly advantageous to the fast freight company. Then they charged the public additional rates for carrying commodities in these cars and raked off the profits, which were enormous.

If a shipper wished to have his goods forwarded with any reasonable celerity, he must ship by one of these fast freight lines, and pay the toll to the Insiders. Otherwise his shipment would be subject to delay. So-called "Red Lines", "Blue Lines", "White Lines", gave an appearance of competition to this nefarious traffic. As a matter of fact all were owned by the same Insiders and all represented swindles on the public and on the small stockholders of the railroads.

Another profitable device was the express contract, which, rather strangely, still survives in spite of public opinion. Cars of the express companies were hauled by the railroads at low rates, enabling the express companies which were owned exclusively by the railroad Insiders, to reap great profits. The Vanderbilt family owned some years ago, thirty thousand shares of American Express stock. In the Merchant's Despatch Transportation Company, another favorite concern, the same family owned twenty-four thousand of the thirty thousand shares. This singular institution, the exact utility of which was never disclosed, was not long ago earning forty per cent annual dividends on stock only one-fourth of which had been paid for, and earning these returns chiefly by means of the favorable contracts with the New York Central lines.

Similar observations apply to the relations between the New York Central railroad and the old Wagner

Sleeping Car Company, a concern owned almost entirely by the Vanderbilts. A committee of the legislature once looked into the arrangement between the railroad and this company and made some exceedingly pertinent comments thereon, but nothing ever came of its findings. The Wagner Company made for its owners ten per cent a year, chiefly because of the contract that its owners had made with themselves as directors of the New York Central. In 1900, the Wagner Company was merged with the Pullman on favorable terms to the Vanderbilts, who became large stockholders in the amalgamated company. In 1907, the statement was made that the company, since the consolidation, had made annual dividends of thirty per cent a year in stock and cash.

There is a famous old castle and country seat in England called Blenheim. It is the ancient seat of the Dukes of Marlborough. In recent times it had fallen into decay because of the poverty of the ducal family. In 1896 the reigning Duke married a Vanderbilt. Then the poor old castle was repaired and refurbished in lavish style with the money of the Vanderbilt family, made in the manner thus described. It is pleasant to reflect upon this fact whenever there is agitation for an increase of freight or passenger rates. At least we can know what becomes of some of the money thus taken from us. More than that, we can actually see it. Visitors are admitted to a view of Blenheim at a trifling charge each.

Besides fast freight, express and sleeping car graft, takings were goodly for this tribe in other lines of endeavor. There was the Albany bridge and there was the Spuyten Duyvil & Port Morris Railroad.

The small steel bridge across the Hudson River at Albany was for many years owned by a separate company, of which the Vanderbilt family were the chief stockholders, and that sturdy and famous champion of commercial idealism, Chauncey M. Depew, was president. This company had a contract with the New York Central (which used the bridge as an approach to Albany station) by which the bridge company collected approximately ten cents for every passenger carried across the bridge, with other tolls for freight cars. The profits under this arrangement were goodly. As a matter of most obvious fact the railroad company should have built and owned the bridge, but the other company was interposed as a convenient form of "benefit". About 1906, after festering twenty-five years or so, this scandal came to a head in the New York legislature and the bridge company disappeared.

The Spuyten Duyvil & Port Morris railroad was a piece of connecting track across what is now upper New York City. The New York & Harlem came down on the east side to Grand Central station or near it. The Hudson River Railroad came down on the west side to Thirtieth street. The connecting track enabled the Hudson River trains, after Vanderbilt had come into control of both roads, to get into the Grand Central. Vanderbilt organized a company with himself owning practically all the stock, to hold this connecting track. Then he leased it from himself as the Spuyten Duyvil & Port Morris Railroad Company to himself as the boss of the Hudson River Railroad Company at a preposterous rental, collected the rents and charged them to operating expenses.

In 1909 this interesting arrangement was still in

existence, but being assailed bitterly by the muckrakers, with whom our fair land was then cursed, the New York Central pretended to buy out the interest of the Vanderbilt heirs and the Spuyten Duyvil & Port Morris Railroad, that famed thoroughfare of travel, was wound up and disappeared.

In effect, what the New York Central did was to issue new bonds, a raft of them, for which the stock of the fake railroad company was exchanged.

In other words, while the name of the thing had disappeared, its ghost still walked collecting revenue as before—from you and me. It is still walking and still one of the reasons why freight and passenger rates must be high and wages must be low to meet the needs of capitalization—made in this way.

Many suggestive facts were revealed by the forgotten investigating committee to which I have referred. For instance, the committee learned that peculiar relations existed between the New York Central and the Standard Oil Company, that a member of the Vanderbilt family had been made a large stockholder in the oil company, that the railroad company gave to the oil company very heavy rebates. The committee also learned that for years the Insiders had made great sums of money by the grossest discriminations in freight rates. Among the curious and coincident revelations was the fact that the railroad Insiders had aided to build the great fortune of A. T. Stewart, celebrated as the most successful merchant of his time in New York, and that his fortune had not been the product of any phenomenal ability on Stewart's part, but chiefly resulted from a system of freight rates arranged by and participated in by the gentlemen that

managed the New York Central's affairs. Ability! As a matter of fact, the ability required to make money in this way is less than the ability required to play successfully with marked cards or loaded dice or to bet on a foreknown result.

Returning to the chronicle of New York Central finance, we find that in 1873 more bonds were issued to lay two additional tracks from Albany to Buffalo, and the same year the New York & Harlem Railroad was leased, whereby the New York Central obtained possession of the Grand Central terminal in New York City, and 20,000 shares of Harlem stock that never had been issued.

In 1877 Commodore Vanderbilt died and was succeeded by his son, William H., the originator of the most famous (and significant) phrase in railroad history—"the public be damned". Two years later, the world had a chance to learn how much the various secret money-making operations had meant to the Vanderbilt fortune. William H. Vanderbilt sold $35,000,000 of New York Central stock at $130 a share, and remarked that he still held more than half of his holdings. Never has money been more easily made. The original cash investment in the enterprise had been supplied from public funds that were never returned. The total capital stock was now $89,257,450, mostly representing water and watermelons. It was extracting from the public 5 to 8 per cent a year on this. Without risk, without investment, without effort or labor, the happy possessors of this strange concern levied tribute and grew rich.

The financial policy of the road was now firmly established. Year by year it piled up surplus earnings

and concealed and absorbed them through capitalized "improvements" and investments. Year by year it extended itself by purchasing outlying or competing systems, making each purchase the occasion for more water and more profit for the Insiders. Once, to be sure, in the case of the West Shore Railroad, competition forced it into the purchase of a huge unprofitable property constituting a drain on the rest of the enterprise; but in the main the money-making machine grew steadily, and as steadily increased the burden of the public that supported it. In 1887 and 1888, the company absorbed more than $5,000,000 of surplus earnings "in improvements". In 1890 it issued $15,000,000 of four per cent debenture bonds, a great part of which was subsequently redeemed out of the surplus earnings. The next year it absorbed the Rome, Watertown & Ogdensburg Railroad, liberally watered the stock for the benefit of the Insiders and then guaranteed five per cent on the stock so watered—held by the same Insiders. In 1893 the capital stock was flooded up to $100,000,000, the increase being issued to stockholders at par. And so on.

Some of these operations represented melons to the Insiders.

Much grander melons were to come.

The gentlemen on the Inside had long owned controlling interests in the Lake Shore & Michigan Southern and the Michigan Central Railroads—interests purchased with the surplus and by-profits of the New York Central.

They now issued $100,000,000 of New York Central bonds, and with them ostensibly "bought" the $50,000,000 of Lake Shore stock.

That is they themselves owning the Lake Shore stock, exchanged each share of it for two New York Central bonds having the same par value as the stock. This fine, ripe melon added $50,000,000 to the capitalization (and to the burden that the public must bear), and gave to the fortunes of the Insiders a magnificent addition for which they had paid not a cent.

At the same time they exchanged $18,738,000 of Michigan Central stock for $21,550,000 of New York Central bonds—a neat little melon of $2,812,000, likewise planted upon the public patience.

One trifling circumstance had long stood in the way of this operation. It was illegal. Therefore the gentlemen on the Inside had the law changed. About ten words inserted by the obedient legislature in a statute of the State of New York did the business. One authority has placed the cost of this addition at $500,000. Ten words, $500,000; $50,000 a word. This is the highest rate ever paid for writing and should dispose of the sneer that great wealth is indifferent to literature.

Meanwhile the good old game went on with undiminished ardor, the absorbing of outlying roads by watering stock already overflowing with water, and the capitalizing or concealing of earnings. In 1898, the management took care of $1,345,948 of surplus earnings by charging them to "extraordinary expenses and additions to property"—not specified. In 1899 the financial Moses struck the rocks again and out gushed $15,000,000 of new stock, issued to stockholders at par; market value, 137; melon, $5,550,000. In 1900 the management sopped up $1,691,060, of surplus earnings as "extraordinary expenses" (unexplained) and

$2,000,000 in a "special improvements fund"—possibly having an ethical purpose, none other being specified. Some of the railroads and securities purchased with surplus earnings, cost a pretty sum ($23,000,000 in one year) and yet the enterprise earned five per cent dividends on the stock, the annual deficit on the West Shore bonds and the rest of the fancy financiering. It was a community both patient and rich that was worked for these things.

The real purpose of the juggling book-keeping here disclosed may not be apparent. After the regular dividends had been paid on the huge capitalization, so largely fictitious, there remained each year a surplus. To prevent unpleasant remark it was necessary to conceal this under something that would seem to account for it but still leave it available for future division. It was therefore charged off on the books to "special improvements" or "extraordinary expenses." In four or five years the total excess profits thus concealed might be $10,000,000. This sum was then taken up by a melon or the issuing of more stock to the stockholders. In this way the excess profits were distributed without attracting attention.

Every time a new property was bought, there was more water, and between water issues ripened the luscious melon. Thus, in 1902, $35,000,000 of additional stock was authorized, one-half to be held in the directors discretion, and the other half issued to stockholders at 125. The market price was 163, and the melon $6,650,000. In the four years ending with 1903, there had been absorbed into the capitalization $7,000,000 of surplus earnings, disguised under the heads of "betterments", "extensions", and so on, all constituting

water. In 1904 the company charged off to operating expenses $3,196,452 of additions and replacements, and set aside $1,500,000 of another "special improvement fund" (also possibly ethical). These are but samples of the goodly fruitage.

The company now went into the trolley field and used millions of surplus earnings in the purchase of various trolley lines. Additional capitalizations seem to have reached the balance sheet under the head of "extraordinary expenditures"—which they certainly were. In 1905 the directors issued the remaining $17,500,000 of stock to stockholders at par, market 150; melon $8,750,000. As an example of what the management was doing meanwhile with the subsidiary lines, I may mention that it capitalized this year more than $7,000,000 of the surplus earnings of the Lake Shore besides the 12 per cent that the Lake Shore regularly earned on its stock.

I give one other sweet sample. It is the year 1907 in which the New York Central put $2,800,000 of its surplus earnings into a "special improvement fund", charged off $1,308,260 more as operating expenses, bought 5,748 shares of Boston & Albany stock, paid 6 per cent dividends on its own stock, milked all of the connecting, subsidiary, trolley and other lines into which it had converted its surplus earnings, and convinced Charles Evans Hughes, then governor of New York, afterward a Justice of the Supreme Court of the United States and later Secretary of State, that it could not afford to carry passengers at two cents a mile. The legislature had passed an act reducing fares to the two-cent basis, and the governor vetoed it.

In 1908, the year following the conversion of Gov-

ernor Hughes to the three-cent theory, there was taken from the railroads owned or controlled by the New York Central, $5,331,384 of surplus earnings and converted into "special improvement funds", while $12,595,440 of new equipment and new construction was charged off as "expenses". In that year alone, almost $18,000,000 of surplus earnings were concealed. This was more than one-half of the total passenger receipts for that year. How monstrous is the impudence of a corporation that demands higher rates and lower wages when half of its passenger receipts constitute surplus earnings it must juggle to conceal!

In addition, the New York Central held $153,700,000 of the stocks of other railroads, purchased out of surplus earnings. On these its income in 1907 was $10,078,754.20.

It was following a policy to which little attention has ever been paid, although it is a most significant development. It was investing in the stocks of other railroads the surpluses above "a just and reasonable profit",—the surpluses that should have been returned to the public to which they rightfully belonged.

This meant that the ownership of all the railroads was gradually contracting into the hands of the great Central Financial Interests, by which these Interests were made more powerful than ever.

The outstanding stock of this railroad in 1907, the year when the two-cent fare bill was vetoed, was $178,632,000. Stock, not bonds. There was besides a huge capitalization in bonds.

Of the capital stock alone, this $178,632,000, by the lowest possible calculation, $64,892,545 was water or fictitious, representing no investment, but only gifts

or melons or graft or the reinvestment of surplus earnings that belonged to the public. As follows:

Water in the original stocks, not bonds—

Old New York Central	$13,894,560
Old Hudson River	6,480,985
Consolidation, 1869	44,428,000
	$64,802,545

Actual capitalization (most liberal estimate), $113,-838,455.

The net earnings in 1907 were $22,565,725.67, or twenty per cent on the utmost sum that can be regarded as actual capitalization.

There was also in the bonds (with other water) $45,289,200 of water from the Lake Shore deal, and $2,522,145 from the Michigan Central deal, $47,811,-345 in all. Besides which $63,200,000 of surplus earnings had been capitalized. Altogether the water in bonds and capital stock and the capitalized earnings amounted to $175,814,990.

The only plea in defense of this is that some of the water has since solidified into real value by the increase in the value of the property.

This is false argument. The increase in the value of the property came through increase in the population. It could not possibly belong to the stockholders.

Yet by the company and later by the Interstate Commerce Commission it was made a basis for increased rates. Nothing could have been more preposterous and nothing more unjust.

I offer as a sample of the practices that have been habitual with this company, the record of a few years

in the matter of adding unjustly the surplus earnings to the capitalization:

1890 Surplus earnings transformed into debenture bonds	$10,000,000
1900-1907 Concealed as "Special improvement funds"	16,600,000
1902-1907 Concealed by charging as operating expenses	20,600,000
1898-1905 Concealed as "extraordinary expenses"	7,400,000
1903 Concealed as additions, improvements, etc.	3,200,000
1887-1888 Concealed as "Enlarging terminals"	5,400,000
Total	$63,200,000

The Congress of the United States, with childlike innocence, accepted in the Esch-Cummins act the notion that railroad capitalization is what it pretends to be and all of it however made up is sacred and entitled to profits if the treasury of the United States must be raided to get them. The infantile minds of Congressmen should be directed to a study of the record of some years of the financiering of this remarkable company. I will give a few more samples.

1906. A stock issue melon of $11,900,000—added to the fortunes of the Insiders and to the burden the public must bear.

The capital stock was now $178,182,700 on which 6 per cent dividends were being paid, equal to at least 35 per cent on the actual investment. The funded debt was $230,414,845, which included the bonds issued when the Insiders passed their Lake Shore & Michigan Southern stock from safe to safe. On all of which the road's operation must yield the interest charges.

1909. Played the Leasing Game with the Geneva, Corning & Southern, a subsidiary railroad it had long

controlled. The details of these interesting "leases" are to be revealed later. I may say now that the general principle is for a party of gentlemen to lease a piece of track from themselves as the subsidiary to themselves as the main company, to make the rental excessive and then to charge the amount to operating expenses where it figures as a reason for increased rates and decreased wages.

The same year, 1909, the New York Central & Hudson River increased its capital stock from $178,632,200 to $223,390,000, being an increase of $44,658,800 in one lump that yielded a melon of $13,397,640. Luscious melons!

On this gigantic loot the beautiful Public Service Commission of the State put its seal of approval. It was great work Governor Hughes did for the railroads when he devised that Public Service Commission. The people were becoming restless and dissatisfied under the load they were carrying; they were insistently demanding relief. Well, then give them something to keep them still; give them a Public Service Commission to apply lovely regulation to the evils they complain of. Do not end the evils. Just regulate them. With these results.

This year the Lake Shore & Michigan Southern was milked to the extent of 12 per cent on its stock for the benefit of the Central, which owned 91 per cent of the Lake Shore stock.

1910. This year the Central owned $8,866,507 of the $14,777,264 capitalization of one great trolley combination and $4,500,000 of the $7,500,000 capitalization of another and had much of the trolley business by the throat.

1911. It is plain this year that a substantial part of the 6 per cent dividend paid on the New York Central stock was never paid from the operations of that road, which was being taxed to the limit. So tremendous had been the process of over-capitalization for the benefit of the Insiders that for the time being even the great earning power of the property had been exceeded and all the tribute extorted from the public was not enough to meet the interest demands created by this fictitious capitalization.

1911 and 1912. Indications of a new freshet, being another "consolidation" of the Central, the Lake Shore, the Michigan Central, the Rome, Watertown & Ogdensburg, the Harlem and the rest of the roads already owned, the issuing of a huge blanket mortgage on all of these properties and the hoisting of their total capitalization to a billion dollars or thereabouts. All of which would mean more fortunes for the Insiders and more tribute exacted from us; exacted through increased rates if the Interstate Commerce Commission could be bunked or through inadequate maintenance if it could not.

1914. The consummation of this vast design took place exactly as outlined. The Lake Shore now disappeared. The name of the Michigan Central must be retained for fear of the Sherman Anti-Trust law, but in reality that road was also absorbed, these accretions being the cause, as they always are, for more capital that represents no investment in the enterprise, but on which interest and dividend nevertheless must be had from rates—passenger and freight—or by lowering wages.

You would think that a pickled clam could see that

the more capitalization the higher rates must be to support it, but this simple fact seems never to have dawned much at Washington. Nor yet the other fact, just as certain, that there is nobody to pay these increased rates except the general public, through increased living charges, or the men that operate the roads, through decreased wages.

Still further in the hope of illuminating the Congressional mind I recite the fact that in six years the gentlemen that owned this railroad had added to their fortunes the following sweet melons, taken from the enterprise:

SAMPLES FROM THE MELON FIELD

1893	3%	on	$10,000,000 stock issue..............	$300,000
1899	37%	on	15,000,000 stock issue..............	5,550,000
1902	38%	on	17,500,000 stock issue..............	6,650,000
1905	50%	on	17,500,000 stock issue..............	8,750,000
1906	40%	on	29,839,000 stock issue..............	11,935,600
1909	30%	on	44,658,800 stock issue..............	13,397,640
Total			....	$45,383,240

When to this is added the profits that have resulted from the leases we have described, from such great operations as the Lake Shore deal and the other devious performances back to the days of the Syracuse & Utica Direct, we can catch a satisfying glimpse of the American Railroad as it really is and of the reason for our troubles with it.

All of these items are still in the capitalization, although not one of them has any right to be there. It is upon capitalization thus falsely or wrongfully made that profits are now demanded.

Also, it was upon capitalization thus formed that in

1920 the Interstate Commerce Commission granted to the railroads an increase of 25 per cent in passenger and 35 per cent in freight rates.

When the capital stock of the New York Central & Hudson River had reached $90,000,000, Prof. Frank Parsons, reviewing its development step by step, said that if from the beginning of the enterprise one man had held all the stock it was likely that he would not have paid for it more than $6,000,000.

All the rest represented fictitious issues, gifts, or capital made out of surplus earnings that never belonged to the company, but always to the public.

Bearing in mind this finding and the substance of the astonishing history we have just recounted we may next contemplate the capitalization of this company on December 31, 1920.

Capital stock, $249,597,355; bonds, $748,354,477. The interest on the bonds was $30,736,911, the dividends paid amounted to $12,479,616.

If in this instance the ancient principle of the highway had never been abandoned, if the capitalization had been limited to money actually invested in the enterprise, if all surplus earnings above a just and reasonable return upon that investment had been restored to the public in reduced rates we could ride over it now for less than a cent a mile.

The difference between that fare and the fare we actually pay is represented in the great fortunes that have been made from this public property.

In what way have these fortunes benefited us?

B. The Lake Shore & Michigan Southern.

Take almost any of your so-called great railroads; take the firmest and best of them; and you will find the foundation walls honey-combed with holes like these. Take the history of one long esteemed and highly reputed as a good old reliable dividend dredge, the Lake Shore & Michigan Southern, and see.

1. Previous to 1867 there were between Erie and Buffalo, a distance of 88 miles, two links of railroad, the Buffalo & Erie and the Erie & North East. In 1867 these two were consolidated as the Buffalo & Erie. Just before consolidation their combined capital was $2,800,000. Just after consolidation their combined capital was $5,000,000. Two million two hundred thousand dollars had been added to it after the manner of the Syracuse & Utica Direct—with the job press and the ready pen, not a cent being paid in.

Two years later this consolidation was merged again into another, and once more the press and the pen did their noblest work and the $2,800,000 of original capital was lifted to $10,000,000, with no more money actually invested.

Here was $8,200,000 of capital created out of nothing and leaving an annual charge upon the operating income of the road.

According to one way of figuring it, this charge has never been less than $328,000 a year; according to another it has sometimes been more than $1,000,000 a year; but every year it has been something and the revenue of the road has been stretched and the expenditures curtailed to meet it.

Either way, in the end we pay it.

So far it has cost us not less than $26,000,000.

2. The next section to the West, Erie to Cleveland, 96 miles, was in 1867 possessed by the Painesville & Ashtabula Railroad, which in six years had divided among its stockholders 120 per cent of the face of their holdings in stock, 33 per cent in bonds and 70 per cent in cash—all melons. The 120 per cent in stock and the 33 per cent in bonds were pure water added to the capitalization of the property and creating an annual charge upon the operating income of the road. The total capitalization thus imposing dividend and interest charges on the property was now $12,000,000: the property had cost less than $5,000,000.

On the difference there has since been extracted from the road's operation an annual interest charge varying from $280,000 to more than $800,000. We have paid it.

3. The next link was the Cleveland & Toledo, 113 miles long. In 1866 it paid a scrip dividend of 25 per cent on its $5,000,000 capital, thereby watering the stock to $6,250,000.

The next year this road was consolidated with the Painesville & Ashtabula on the basis of $10,000,000 capitalization, the pen and the job printer having added $3,750,000 over night.

Here was $5,000,000 of fictitious capitalization landed upon the operating revenue of the road. Some gentlemen on the Inside after the manner of the wizards of Syracuse easily made $5,000,000 for themselves: but the road's revenue must be stretched yearly and its expenses curtailed to meet the interest charges thereon, which on one basis of estimate have never been less than $200,000 a year and on another have

sometimes approximated $600,000—every year since.

The roads between Buffalo and Cleveland had now been combined with a capital of $22,000,000. They had cost less than $10,000,000. Water so far $12,000,000; representing fortunes for the Gentlemen on the Inside and interest charges landed upon the road's operating revenues.

4. In 1869 all the connecting links between Buffalo and Chicago were welded into the Lake Shore & Michigan Southern Railroad with a total capitalization (stocks and bonds) of $57,000,000. Pens and job presses had again been busy; the already watered capitalization of each link was still further watered to form the consolidation.

This total so largely fictitious was floated to $62,000,000 in 1871 and to $73,000,000 a little later.

If the rate of water to substance that we know to have existed in most of the component links was true in the others more than one-half of the capitalization at $62,000,000 and nearly two-thirds of the capitalization at $73,000,000 was fictitious.

On this huge mass of fictitious capitalization, amounting to at least $40,000,000 interest charges have been paid since and are being paid now from the operating revenues of the road—which we furnish.

The amount so gouged from the public on this item, which includes all the other gouges I have enumerated, has not been less than $1,600,000 a year and in some years it has been nearer to $5,000,000.

So far these particular operations with the pen and the job press have cost us at least $120,000,000.

About the time the Lake Shore & Michigan Southern was put together from these fragments, Cornelius

Vanderbilt, whose peculiar genius we have just been celebrating, was investing in its stock great sums of money that he, too, had made with a pen and printing press. Presently with such purchases he secured a majority, controlled the property and installed his son-in-law as its president.

From this time on the histories of the two properties merged, as we have found, until the last traces of the old Lake Shore vanished. We may profitably review the last few years of their separate existence and observe what the Lake Shore meant to the New York Central.

For out of the huger earnings of the Lake Shore were drawn the revenues that supported the staggering capitalization of the Central.

In other words, the amalgamation of the two properties was but another device to conceal actual profits.

They overcapitalized the Central and sold in the market for their profit the extravagant overissues of its securities.

Then they fooled the public by exhibiting apparent profits of only 5 or 6 per cent and demanding on that showing an increase of rates or a decrease of wages, or both.

The manner of this was simple, although never suspected by the country.

Because the New York Central owned all the stock of the Lake Shore, the 18 per cent dividends paid by the Lake Shore attracted no public attention and in fact were not publicly known. But the Insiders did not own all the stock of the New York Central, and the dividends paid by the road were of public record and discussed in the public prints. By the time the 18 per cent dividends of the Lake Shore had been divided

among the many channels of New York Central overcapitalization they were made to look much less. This was the secret of, and reason for, the whole transaction.

Such are the relations between actual and fictitious investment.

But it is upon fictitious and not upon actual investment that the railroads have succeeded in establishing their rates.

Observe then these interesting tables:

NET CAPITALIZATION BY THE MILE

Year	Lake Shore & Michigan Southern	New York Central
1901	$63,993	$113,209
1902	62,097	110,689
1903	67,304	111,642
1904	67,419	118,167
1905	65,488	108,442
1906	80,046	119,805
1907	83,323	123,499
1908	87,814	128,954
1909	81,160	129,466
1910	98,496	139,236

DIVIDENDS

Year	Lake Shore & Michigan Southern	New York Central
1901	7%	5%
1902	7	5
1903	7½	5
1904	8	5
1905	8	5
1906	10	5¼
1907	14	6
1908	12	5
1909	12	5
1910	18	6

And hereafter to the final consolidation in 1914, dividends of 18 per cent paid by the Lake Shore became dividends of 5 per cent when diluted through the overcapitalization of the Central.

These great facts now stand forth, clear, indisputable, loaded with significance:

1. In the nature of things the New York Central is one of the greatest profit-earning railroad enterprises in the world.

2. It has been so grafted upon for melons, so drained and depleted by tricks and devices and income charges that are so many pumps to draw off its revenues, that even its enormous earnings are now insufficient to meet these drains.

3. Therefore the Lake Shore, though loaded with so many other burdens from the days of the Erie & North East to this moment, must be worked and overworked and strained in new ways to produce 18 per cent dividends to make good the deficit caused by these abnormal drafts upon the New York Central.

For these conclusions we have not only the evidence of the figures here printed; we have the high warrant of the Interstate Commerce Commission in one of its most famous findings.

"The net operating income of this company [the New York Central] during the fiscal year 1910 was \$23,000,000 * * * and so computed there would remain \$7,000,000 for dividends and surplus, to which should be added about \$2,000,000 from securities owned other than the above stocks, making a total of \$9,000,000. The present capital stock of the New York Central outstanding, according to its report to this Commission, is \$223,000,000. A dividend of 5 per cent

on this amount would exceed $11,000,000 and a dividend of 6 per cent $13,000,000, from all of which it is evident that if the New York Central was confined to the income from the operation of its system east of Buafflo it could not maintain the payment of dividends at a rate of even 5 per cent."

In the next five years, and notwithstanding the Interstate Commerce Commission's rule about paying for maintenance from earnings, this road issued millions upon millions of equipment trust notes to replenish its rolling stock and thereby continued in effect the old maneuver of capitalizing spikes and drawheads.

For all of which we pay, and shall pay many times.

In New Zealand the rule about the railroads is 3 per cent profit on the money actually invested and all the rest returned to the public in the shape of reduced rates.

Contemplate the vast quantities of water in the Lake Shore and the New York Central, and then ask yourself this question:

Suppose the rule followed in New Zealand, which is the old principle of the highway, had been the rule in the United States, where should we be now in the matter of freight rates, for instance?

CHAPTER III

THE SOUTHERN PACIFIC SYSTEM

A. Foundations of Its Capital.

Long before the Civil War, before the discovery of gold, before California was a possession of the United States, thoughtful men had dreamed of a transcontinental railroad line.

It was a fascinating dream. The ways to the Pacific Coast then were long and full of chances. By land they meant months of slow teaming among hostile Indians; by sea, a frightful voyage around Cape Horn or a doubtful journey across the Isthmus of Panama.

When California began to fill with Americans and to reveal something of its stores of wealth, a railroad became an urgent necessity. Among the men that speculated about it and how it would come was Theodore D. Judah, an accomplished engineer and respected citizen of Sacramento, about the year 1860.

The sum of the difficulty was to get past the high wall of the Sierra Nevada Mountains. Emigrants threaded that barrier with wagon trails but none of these was supposed to be possible for a railroad line. The huge rampart of rock was so formidable that most of the engineers gave it up and believed that when California secured a railroad to the east it would be by a long detour, at least four hundred miles to the south, to avoid the high mountains.

In the old mining camp called Dutch Flat, high up

on the slope of the Sierra Nevadas, lived Daniel W. Strong, a mining pioneer and prospector. He had studied the problem about the railroad and the mountains and had come to the conclusion that it was far from hopeless.

Being in Sacramento, chance threw him into contact with Engineer Judah, in whom he found a more than willing listener. On the strength of what Strong told him, Judah began to make excursions on foot among the Sierras. He must have been of rare diligence and persistence, for he had gone twenty times alone from Sacramento to wander through the Sierras before he found what he was looking for. It was a pass among the mountains by way of Dutch Flat and the Truckee river, and he was sure a railroad could be built through it.

He had a friend in Sacramento, one James Bailey, a jeweler, to whom he told his discovery. Bailey thought a company could be organized right there in Sacramento to build that road. He and Judah invited the merchants of the city to come one night to the St. Charles Hotel and hear Judah describe his project. The merchants came but were not much impressed. Bailey talked of it to both members of the firm of Huntington & Hopkins, hardware dealers; to Charles Crocker, who kept a dry goods shop; to Leland Stanford, a young lawyer; to the Lambard brothers, to Samuel Brannan, and John R. Robinson, Sacramento business men. Out of these efforts and Engineer Judah's faith was organized on June 28, 1861, the Central Pacific Railroad Company, with a capital stock of $8,500,000, of which 10 per cent was paid or alleged to be paid in. It is interesting to note that Daniel W.

Strong, the old pioneer, in whose mind the project first took shape, was one of the stockholders.

How much actual money was thus actually invested in the enterprise was not made known at that time, but came afterward to be a subject of much concern to some of the courts, which tried hard to find out the facts. Besides the discovery that some of these men seemed willing at different times to make wholly different assertions about the same thing, only one solid fact was unearthed by these investigations. It was that the original incorporators, four of whom soon appeared as sole owners of the enterprise, risked little of their own means in it.

These men, Messrs. Huntington, Hopkins, Stanford and Crocker, got up a petition not long afterward to Congress asking for a subsidy to aid in the building of their line and in this they made a sworn deposition that their wealth in 1862 was as follows: Leland Stanford and his brother, $39,950; Charles Crocker, $25,000; Mark Hopkins, $9,700; Collis P. Huntington, $7,222; the firm of Huntington & Hopkins, $32,950; total, $108,987. This, they swore, was all the wealth they had in the world. As their allotment of stock would have called, on a 10 per cent basis, for cash payments of more than $200,000 it is evident that they did not pay their share unless they borrowed much money or unless they had much more wealth than they swore they had. Some years later, Mr. Huntington, testifying under oath, before a Committee of Congress, said that in 1862 the total wealth of the four was more than a million dollars, having apparently forgotten all about the petition that made their total possessions $108,987, although that also had been sworn to.

These four soon became, first, the dominating and then the only figures in the story. In one way or another they rid themselves of all the others that had taken stock in the Central Pacific. In four strange suits at law that came to be filed years afterward in San Francisco very damaging allegations were made about the manner in which the other stockholders had been thrown out of the boat. We shall have occasion to refer again to these suits. The present point is that in them four men, in a position to know all the facts, swore that Messrs. Huntington, Hopkins, Stanford and Crocker paid never a cent for their stock, invested nothing in the enterprise and diverted to their own uses money and property that belonged to the company.

The only money actually invested in the Central Pacific, according to these allegations, was paid in by the other stockholders and by counties that sought to help the road by subsidizing it.

There was, as a matter of fact, no reason why much money should be required of the stockholders. The real nature of the enterprise, as we can see now, did not demand much money. For the purpose was not to build and equip a railroad with the company's capital, but to induce the United States government to do the building and equipping and then to deliver the road, built and equipped, to these four gentlemen.

The originator of this happy thought has been supposed to be Mr. Huntington, but as other gentlemen elsewhere in the country were possessed of it at about the same time, we cannot be sure that he invented it. For many years, as we have seen, the hope of having a railroad to the Pacific Coast had laid strong hold

upon the imagination of the country. Congress appropriated money for preliminary surveys; many legislatures had petitioned and resolved about it. To the general purpose the mind of the nation was all friendly. If men that had railroad schemes did not try to take advantage of this mood they would have forgotten their cunning.

Nevertheless men without such schemes and only desirous for the country's good insisted that the government should build and operate the road. They pointed out the immense dangers and expenses that lay in surrendering to private hands the control of this most important of all the highways, and but for one circumstance it is possible that these prophets might have been heard.

The Civil War came on. It sharply illustrated the need of a transcontinental railroad line because the main traveled stage route to California lay through regions that had revolted with the Southern States, and it had another effect useful to men with private projects for such a line. It diverted the attention of the country so that legislation that might ordinarily be difficult could be slipped through without too much limelight.

What work therefore lay first to hand before the astute gentlemen of Sacramento was not with pick and shovel, nor anything in that line, but in the stately halls of Congress. To the stately halls Mr. Huntington in person addressed himself. At first he took with him there Mr. Judah, the engineer, discoverer of the route over the mountains and actual founder of the whole enterprise, so far as it was physical and not a gamble. The assistance of the engineer to explain the Central

Pacific route and how easily it could be used was natural enough, but Mr. Judah seems to have been of little use in Washington; information as to the Central Pacific route did not seem to be in great demand. Mr. Judah died rather more than a year later and left the cause of his dissatisfaction unexplained, but it appears that he was not happy over some of the developments.

Supposing him to be of ordinary scruples, there was reason enough. What line of arguments seemed to impress Congress and how the Central Pacific scheme came to win its approval we can surmise when we come to study certain documents in which Mr. Huntington described to an intimate friend and associate the exact nature of his employments among the nation's statesmen. It is enough here to say that these employments were crowned with great and even astounding success. It was the time when Oakes Ames and his Credit Mobilier schemers were putting over a similar project in behalf of the Union Pacific organization. Mr. Huntington joined forces with this aggregation of talent and the whole thing went through swimmingly together—Union Pacific, Central Pacific and all. Afterward, when it was too late, the Credit Mobilier and Union Pacific part of these operations came to be a stupendous national scandal in which many reputations were blackened and many careers wrecked, but the share of the Central Pacific in the legislation that made part of the scandal was generally overlooked.

Yet it ought not to have been overlooked, for it was one of the most extraordinary achievements in the whole history of lobbying. As I have pointed out, there was nothing wonderful at that time about get-

ting Congressional aid to a Pacific railroad scheme. What was wonderful then and is wonderful now is that discarding other, better and less costly plans, Congress should have made with these men a contract that out of hand bestowed upon them such vast fortunes without exacting a tangible return.

The bill passed both house and was signed July 1, 1862. In substance and effect it engaged the government to build the road with public funds and make of it a gift to the Fortunate Four of Sacramento, at the same time presenting them with many millions of dollars, collected at public expense.

The wording was, of course, somewhat different. First, there was given to the Central Pacific Railroad Company every alternate section of public land designated by the odd numbers to the amount of five alternate sections for each mile of the railroad, and on each side of it. You will not understand this unless you are familiar with the mystery of railroad grants, so I will translate it for you. A section is 640 acres. The bill set apart a strip of land twenty miles wide, ten miles on each side of the track for the whole distance, and then gave to the company half of the land in that twenty-mile strip, or 6,400 acres of the people's land for every mile of railroad. This land was worth, at the lowest estimate, $16,000,000.

The bill then provided that as soon as the company should complete forty miles of track the government should issue to it bonds of the United States of $1,000 each, bearing 6 per cent interest, for each mile of railroad constructed, as follows:

For every mile in valley or level land, $16,000 in bonds.

For every mile in the foothills, $32,000 in bonds.

For every mile in the mountains, $48,000 in bonds.

On the route planned by the Central Pacific, the value of this subsidy was $27,500,000. Total help from the government so far $43,500,000.

Meantime, Leland Stanford, President of the Central Pacific, had been elected Governor of California, and under his care the legislature passed many bills for the company's benefit, most of them allowing the towns and counties to contribute to the company's coffer, which they promptly did. San Francisco gave $400,000; Placer County, $250,000; Sacramento County, $300,000—in subscriptions to the stock—and the State of California gave a liberal donation.

With all these and still other resources in hand, the company saw that it was in a condition to begin actual operations, and on January 8, 1863, with much ceremony, ground for the new line was broken at Sacramento, the legislature being present in a body and Governor Stanford digging the first shovelful of earth. Contracts for the first eighteen miles were let to nine different persons. Beyond that and so far as the 138th mile, Mr. Crocker (operating as Charles Crocker & Company) was the sole contractor. Thirty-one miles of track had been laid up to September, 1864.

Although the grants to the company under the Act of July 1, 1862, had been so amazingly liberal, Mr. Huntington was not satisfied with them, and believed that still more could be extracted from a government so generous with the peoples' money. Partly in conjunction with the interests back of the Union Pacific, he planned a new raid on Congress. The Union Pacific had been authorized to build west from the Missouri

River to meet the Central Pacific, and had received similar grants. Mr. Huntington particularly wished to have the act of 1862 enlarged about the bond gift. As it stood it read thus:

"The issue of said bonds and delivery to the company shall ipso facto *constitute a first mortgage on the whole line of the railroad and telegraph, together with the rolling stock, fixtures, and property of every kind and description, and in consideration of which said bonds may be issued."*

Mr. Huntington maneuvered so well and, in his own apt phrase, "explained things" so successfully to Congressmen that he got a new act passed in July, 1864, drawn apparently in every respect to his will. It changed the first mortgage of the government bonds into a second mortgage, and allowed the company to issue its own first mortgage bonds to the same amount as the government bonds. It also changed the land grant. The strip of donated land on each side of the track was now made forty miles wide instead of twenty, and the number of acres bestowed upon the company increased from 6,400 to 12,800 for every mile constructed. In the old act mineral land in the donated tracts had been exempted. Mr. Huntington had that changed so that mineral lands containing coal and iron were included in the gift to the company, the reason being that much good coal lay along the route. Bonds of both kinds were also allowed to be issued in advance of construction.

The new law virtually made the government guarantee the company's first mortgage bonds, and the company now began to issue such bonds and to sell them.

Mr. Huntington went to Boston and sold a great many at par and interest; and some at a premium.

Mr. Crocker pressed on with the building, Mr. Huntington buying the material in New York and shipping it around the Horn.

As fast as the road was built, it was opened and began to do business and to make money.

Government bonds were issued to the company mile by mile as the road was built. With these and the proceeds of the company's bonds Mr. Crocker carried on the construction. It appears that for the work between the eighteenth mile, where he took charge, and the 138th mile, where he left off, he received in securities a little more than $10,000,000.

On the face of it this seems mysterious. Ten million dollars for 120 miles is at the rate of $83,300 a mile. Yet it was obvious at the time and afterward proved that the construction had cost no such sum. As we shall see later the cost of railroad construction in this country has often been exaggerated when exaggeration has been to the advantage of railroad promoters, but in those days nobody really asserted a construction cost like this.

Moreover, the arrangement with the builder was strangely loose. He did the work, presented his bills, whatever they were, and received in payment mile by mile the bonds and stocks that the company had issued or had received from the government. His bills specified the amount of work done, so much dirt excavated, so much rock, so much for culverts and the like, and these were paid accordingly and without question. It is not thus that we are accustomed to see great construction work carried on.

From the 138th mile on, the work was done by another contractor.

Behind this simple little every day fact lies one of the strangest chapters of this whole strange story. We are to come back to it later and tell it in full. Then we shall all admit that as a narrative it equals a novel, and in the way of direct personal interest to every one of us far surpasses anything we shall ever find in fiction.

Ordinarily, what do we care what contractor built any part of any railroad Firm, individual, company—what is it to us? And this was sixty years ago. What do we care?

We care this much, or have reason to care, that every day of our lives the fact that lies back of the change in contractors on the Central Pacific comes to our tables and collects money. Year in and year out it gathers tribute, millions and millions of tribute. The expenses of every household in the country are affected by it. Because of it we pay more for things we eat and wear and shelter ourselves with. Every year we pay more. By means of this extra tribute and this alone we have already paid more out of our household expenses than the whole Central Pacific Railroad cost. We shall continue to pay it over and over as long as the present transportation methods exist in the United States.

For much more was done than merely to change the name of the contractor when Mr. Crocker withdrew at the 138th mile. There was at the same time erected a magical pump for gathering the nation's wealth into the hands of a few, a marvelous Millionaire Mill that made its owners rich at public expense and while they slept.

The Contract and Finance Company was the name of Mr. Crocker's successor in the building of the Central Pacific. It was a joint stock concern, regularly chartered to build railroads and do other things.

There were four stockholders, and no more—Collis P. Huntington, Mark Hopkins, Leland Stanford, and Charles Crocker. Mr. Crocker was manager and appeared in actual charge of the actual work. If a man had known nothing of the inside of the story he would never have suspected there had been a change.

Yet there had been, of the most momentous nature. Because now the bonds issued by the United States to aid the work and the bonds and stocks issued by the Central Pacific were turned over mile by mile to the Contract and Finance Company, and if anything was left after labor and expenses had been paid it naturally remained with that company instead of going back to the government or being added to the general assets of the Central Pacific.

What might become of the assets of the Central Pacific would be a matter of concern to the government and the public because the Central Pacific would soon be a debtor in a large amount to the government. What should become of the assets of the Contract and Finance Company was nobody's business except that of the stockholders. And the stockholders—who were they?

Messrs. Huntington, Hopkins, Stanford and Crocker.

If any body is disposed now to think that this arrangement was accidental and what came of it was not deliberately designed, such a charitable soul should turn next to the sinister performances of the Central

Pacific in its dealings with the United States government.

Mr. Huntington's law allowed the company to charge the government $16,000 a mile (to be paid in government bonds) for all the line it should build in level or valley country, $32,000 a mile for line built in foothill country and $48,000 a mile for line built in the mountains.

The company charged the government at the mountain rate, $48,000 a mile, for building on thirty miles of level or nearly level land near Sacramento, and at foothill rate, or $32,000 a mile, for building a hundred miles across the valley and desert east of the Sierras, a region as level as a floor.

It was this achievement that gave rise in California to a bitter jest not even yet forgotten there. Men said that the Central Pacific was the strongest corporation in the world, for it had moved the whole range of the Sierra Nevada mountains thirty miles.

Against this trickery Mr. Judah alone had protested. Not long after, his interest in the Central Pacific was callously sacrificed with that of Bailey the jeweler and others among the original supporters of the project. Mr. Huntington put to them the bald proposal that they should buy or sell. As they had no money to buy with, the alternative was like a pistol at their heads. Still they hesitated. To encourage decision, Mr. Huntington rode one day along the entire line and stopped all work, a privilege he had retained under the contract. Menaced with the failure of the enterprise, the outsiders were driven to sell, and Huntington, Hopkins, Stanford and Crocker secured the ownership.

They kept it for sixteen years in which it produced

for them, without effort or investment on their part, four of the largest fortunes in the world. When for a time they parted with it, that act also produced other fortunes and when they took it back, still other fortunes. Automatically, coming and going, it produced fortunes.

But this is to run a little ahead of our story. Soon after the forced exit in this manner of the other stockholders, the Central Pacific Railroad Company increased its capital stock to $20,000,000, and soon after that to $100,000,000 of which $62,000,000 was issued (but not paid for) and the rest reserved in the company's treasury.

Issued but not paid for? How could that possibly be? Did it pass into the hands of individual owners who took it and possessed it and had it for theirs and still never had to pay a cent for it?

Exactly so. First the $62,000,000 and eventually the remaining $28,000,000 and many other valuable things, all going the same way into the possession of these four gentlemen of Sacramento without the payment of a cent therefor. How was this marvel accomplished?

It is here that for the first time we cross the secret trail of the Contract and Finance Company and have a chance to see why Mr. Crocker gave up the building contract at the 138th mile. The Contract and Finance Company was the means and agency by which this stock was thus effectively transferred without money and without price.

Thus transferred, we may observe here, it became, of course, part of the capitalization of the Central Pacific Railroad.

On that capitalization rates were based. On it rates

continue to be based and we continue to pay them to this day.

On it also wages are determined.

When the Interstate Commerce Commission figures now the capitalization of the American railroad system on which it estimates railroad revenues and fixes railroad rates, it includes this $100,000,000.

When the Railroad Labor Board decides that to enable the railroads to earn a reasonable interest on their capitalization wages must be reduced, the capitalization on which the Board figures includes this $100,000,000.

When a statesman like Senator Cummins prepares a bill to guarantee to the railroads a return upon their capitalization and pledges the United States treasury to make that return good, this $100,000,000 is part of the capitalization he makes the basis for his legislation.

When passenger rates are increased even between far-away Chicago and New York from $20 to $32.70 in order to enable the railroads to earn a fair return upon the total capital invested, items similar to this $100,000,000 are part of the capital so considered.

When the railroads protest against the reduction of freight rates and show that it will prevent them from earning a fair return upon their capitalization, they mean upon this item of $100,000,000 and others like it.

Yet it represents no investment in anything. It is not and never was a part of any actual railroad enterprise. It was and is nothing but a device to collect tribute from the public and deliver such tribute into the hands of the gentlemen lucky enough to have possession of the device.

By 1866 the gentlemen of the Central Pacific had either in actual existence or in certain prospect these items of wealth:

Stock (issued or to be issued)	$ 62,000,000
Land	30,000,000
Government bonds	27,500,000
Their own guaranteed bonds	27,500,000
Donations, about	2,000,000
Total	$149,000,000

And their railroad was steadily pushing eastward. Only one prospect clouded their felicity.

The Union Pacific Railroad, backed by a band of speculators as greedy but not so fortunate, was now (with government money) building its line westward from Omaha. For three or four hundred miles its way led through a country flat as a board, close to water, and in sandy soil easily dug. It therefore, progressed with great rapidity, sometimes laying as much as ten miles of track in a day.

The act of 1864 had authorized the Central Pacific to build eastward to a junction with the Union Pacific, wherever that might be. At first the four partners had assumed that this junction would be far to the eastward, allowing them goodly mileage and many fat bonds, but the swift advance of the Union Pacific began to annoy them, and by 1867 they were thoroughly alarmed. The Union Pacific was approaching the mountains. If it should thread them first, the Central Pacific would lose the fattest part of its contract with the government; also the best of the joint haul when the roads should be united.

There ensued the maddest chapter in all railroad history. The two roads entered into a race, tearing into the work before them regardless of any question of cost, working day and night with relay gangs.

In April, 1869, the Central Pacific builders were almost within sight of the enemy's lines.

Before them was Ogden, the goal of the race, in the great valley between the Rocky and Sierra Nevada ranges. In the fury of competition both companies far overshot the mark. The Union Pacific had its graders one hundred miles west of Ogden; the Central Pacific had its advance line forty miles beyond its track layers. Only the iron actually put into position counted in the race.

On the last day, ten miles of track were laid; on April 28th, they struck the Union Pacific line fifty-three miles west of Ogden; and May 10th, they drove the golden spike that cemented the two roads. The Union Pacific had won by fifty-three miles. Subsequently, the Central Pacific bought of the Union Pacific, at a high price, the overlapping road and charged this and its own superfluous building and all the other lunacies of the race into the capital on which we now have the pleasure of paying interest. But the road was built, and the four promoters of Sacramento had a mileage sufficient to justify their bond issues. They now sat down to figure the cost and to pass it to the public in a needless and increasing burden that the public has patiently borne ever since.

The world rang with the exploit; the country rejoiced; California was superbly happy. That May day she hailed as her deliverance; she was now truly of the

country, bound to it with more than iron cords. The new communication, reducing her distance by three-fourths, brought her into the house of states; all would now be well with her. So her people said. And yet, so tangled and contradictory are the affairs of men, there was at the same time laid upon her a heavy and bitter curse that to this day she has never been able to shake off.

The rapid building of the Central Pacific through the mountains was for the times a great exploit. Naturally it has since been far surpassed as an achievement of engineering and construction. Abating nothing of admiration for the physical performance, it is time now to reflect that it was also a monstrous triumph of greed, fraud and corruption; that it might have been had a fraction of its cost to the public; and that it might very easily have been a blessing instead of a blight to that rich country of which it was ecstatically miscalled the Gateway.

For the Gate was quickly closed and before it appeared the grim figure of Collis Potter Huntington, one hand holding the key and the other stretched out taking toll. The physical figure of Huntington is no longer there, but the Gateway remains closed and before it are his successors, still busily taking toll.

How much—do you think?

From the day the Gate was erected and closed, down to the year 1922, first Mr. Huntington and his associates and then their successors have taken and divided more than one billion dollars in unjust tolls, all from the people of the United States, who so kindly erected the Gate across their own highway.

With that sum, the people could have built ten railroads from the Missouri to the Pacific.

And they need have had no closed Gateway and no toll takers fattening upon an enforced and arbitrary tribute.

CHAPTER IV

THE SOUTHERN PACIFIC—*(Continued)*

B. The Contract and Finance Company.

This matter of the capitalization of railroads being of such great importance, so that all rates are based upon it and all wage scales come back to it, we ought to welcome an opportunity to see what capitalization really is and how it is made.

We ought to welcome it the more because it means so much to us in so many ways. Every time we ride on a railroad at least one-half of the price of our ticket is a tribute levied on us by excessive capitalization. Every time we ship goods by freight or express we pay this tribute. Every time we buy anything that has been shipped by freight or express we pay it plus the profit charge on that tribute added by every person that has handled it.

In 1877 a committee of the United States Senate after investigating railroad conditions, found that an increase of 5 cents a bushel in the freight charge for carrying cereals would mean an increase of $40,000,000 a year in the cost of living of the people.

If it was $40,000,000 then, it would be at least $120,000,000 now, for the population has nearly doubled and what was worth 5 cents then is worth 10 cents now.

But the freight charges on cereals in the last few years have been increased much more than 5 cents a bushel. Hence it is likely that since 1913 the cost of

living of the American people has been increased by increasing freight charges on cereals alone $500,000,000 a year.

Most of the demand for these increases of freight rates have been caused by the necessity of meeting the interest charges on this same capitalization, always increasing, therefore always demanding more income for the railroads.

What, then, is this hungry fiend, Capitalization? Who puts it into our railroad system, and what for? What is there about it that is so sacred that the interests of the nation must stand aside until it has been fed with tribute thus levied and collected? What is this strange creature and where does it come from?

We have now a good chance to discover the answer to all these questions—one of the best, in fact. The secrecy that ordinarily conceals the financial operations of a railroad has for once been broken through. The investigations of the Pacific Railroad Commission have given us the material for the whole story of the Contract and Finance Company, and after we have thoughtfully considered that grand narrative none of us need have any doubt as to the holy nature of Capitalization nor the reasonableness of putting it ahead of everything else in the railroad question.

We have seen that the four stockholders of the Contract and Finance Company, Messrs. Huntington, Hopkins, Stanford and Crocker, were also the chief, or you might say, the only stockholders in the Central Pacific Railroad Company. As directors of the Railroad Company they now proceeded to make a contract with themselves as directors of the Contract and Finance

Company, to build the Railroad Company's lines and take in pay therefor bonds and stocks.

The same peculiar arrangement we have noted with Mr. Crocker was repeated here. The Contract and Finance Company presented its bills for the work and the Railroad Company paid them—with these securities; bonds and stocks, the government's and its own.

But the Central Pacific happened to have been organized under the laws of the State of California, and these strictly forbid a railroad company to do two things.

To issue bonds in excess of the amount of stock it had issued; to issue stock except for the payment of cash or the equivalent of cash.

Ten per cent of the stock must be paid for when the company is organized. The rest may come in installments—in cash or the equivalent of cash.

For two reasons this law put the four happy gentlemen of Sacramento in an awkward situation:

1. The control of the company lay in the ownership of its stock. They wanted to own the stock. They did not want to have to pay for it. They wanted to get it for nothing.

2. As fast as the road was built the government was issuing to them its bonds, chiefly at the fraudulent rate of $48,000 a mile. They were then authorized to issue the company's own bonds for the same amount. These bonds being a first mortgage were worth 105. It was good business to issue them. But under the law of California they could not be issued until there had been stock issued to the same amount. And this stock must be paid for in cash or its equivalent.

If it were put upon the market the happy four would

lose a part of their Great Good Thing. If they did not put it on the market they must pay for it themselves. To this they were conscientiously hostile.

But suppose that for building the railroad the contractor was willing to take stock as part payment for work done. Suppose he gave his receipted bills in exchange for this stock. That would meet the requirements of the law in regard to cash or the equivalent of cash, would it not? A contractor's receipted bills for work done are as good an equivalent of cash as anything you can think of. First point.

Then the company, having disposed of so much stock, could now proceed under the law to issue an equal amount of its own bonds, worth 105. Second point.

Suppose next that the contractor getting possession of the stock thus, should see fit to make a present of it to worthy friends of his. It would be his own; he could do with it as he might see fit. Suppose then that these worthy friends should be his three associates in the Central Pacific and himself. The stock, which carried with it the control of the company, would never be out of the possession of these worthy four and all would be lovely with these deserving patriots. Third point.

Then, if we imagine that by some error or miscalculation or carelessness the actual cost of building the road might be less than the amount charged by the contractor and the difference might represent approximately the amount of the stock that he accepted, the stock would be issued for cash or the equivalent of cash, as the law demanded, and would pass into the possession of the worthy four and yet they would never be obliged to pay for it.

Errors in keeping railroad accounts, as the Interstate Commerce Commission knows well, are easily made. It seems to be a business peculiarly liable to errors. For instance, in the last chapter we found that Charles Crocker & Company received $83,000 a mile for building 120 miles of the road. Yet the cost of construction, as afterward ascertained by the expert engineer of the Pacific Railroad Commission, was only $50,317 a mile.

For this the government was issuing its own bonds, mostly at the rate of $48,000 a mile, and the company was issuing stock and bonds.

It is evident that if the building contractor were equally careless about his accounts along the whole line there would remain in his hands a large amount of the securities delivered to him by the Central Pacific to pay for the work.

The directors of the Central Pacific desired to issue $62,000,000 worth of stock that they might issue and sell a corresponding amount of bonds. You can imagine that with equal carelessness in accounting for the whole 687 miles of line the entire stock issue of $62,000,000 might be taken up in this way, reach the worthy four and they never pay a cent for it. Something of the kind might easily be possible, because years afterward the then secretary of the Contract and Finance Company testified under oath that the company received $86,000 (in securities) for each mile it built, while the expert engineer testified that the actual cost was $50,537 a mile.

Besides which, there was the land grant. In Congress once Representative Barclay Henley showed that

the whole Central Pacific Railroad could have been constructed out of its land grant alone.

In the processes we have imagined, however, there would be one hitch.

A firm of contractors could not continue to make presents of valuable stock to its friends without arousing unpleasant remarks. No matter how worthy the friends might be, the repeated gifts of millions of dollars of stock would make people talk. People are so uncharitable and so fond of gossip. Particularly about rich men.

But with a joint stock company it would be very different. Suppose a joint stock company at the end of a year found itself in possession of $10,000,000 or $15,-000,000 of surplus securities; stock, let us say, Central Railroad stock, delivered to it for construction work. It would not have to make any present to any of its friends.

It would merely distribute its assets among its stockholders, which is perfectly right and proper; all joint stock companies do it—when they have any assets to distribute.

Moreover, captious and gossipy people need never know about it. The proceedings of a joint stock company are secret.

Of course there would have to be somewhere some memoranda or books that would show what was actually paid out for the work and what was actually received for it—in securities—but these if judiciously kept need never attract the attention of a fault-finding public.

All this being quite clear, we will now return to our

narrative, to which I am sure it will be found to have added much interest.

In 1870 there came to California from Virginia a young man named John Miller, who found employment with the California Pacific Railroad as clerk and ticket agent at the South Vallejo station. He was capable and industrious, and capable railroad men were few in California. The company that employed him had built a line eastward from Oakland and had hopes of some day crossing the mountains and becoming transcontinental. A year later when some men in the railroad way at Sacramento wanted an efficient accountant, they learned of Miller, sent for him, looked him over, and thought he would do; so he went up to Sacramento and entered upon his new job, which was better than his old one had been. It was with the Contract and Finance Company, of which a kindly old man known as Uncle Mark Hopkins was the president. The office was right over Huntington & Hopkins' hardware store in K street, and across the hall were the offices of the Central Pacific Railroad, of which Uncle Mark Hopkins was treasurer and director.

Young Mr. Miller's task was to assist the paymaster of the Contract and Finance Company, and to keep books—not the main books of the concern, for these were always kept by William E. Brown, the company's secretary, but certain other books that he called auxiliary books.

To build and keep in repair the lines of the Central Pacific and of railroads with other names, was the business of the Contract and Finance Company, but the books that young Mr. Miller kept did not contain

a complete record of these matters; they related only to minor phases of the work in hand.

Young Mr. Miller was observant as well as studious, and when, some months after he entered the office, he saw that Mr. Brown was employed diligently upon the main books of the concern, the nature of this employment aroused Mr. Miller's curiosity. He took occasion when Mr. Brown was absent to examine the books that Mr. Brown kept, and found them to contain matter of much interest.

In fact, the more he examined them, the more interested he became. They were books that recorded the building and repairing of railroad lines for the Central Pacific—what the work actually cost, and what had been paid for it—and might, therefore, be deemed to be among the most juiceless and unattractive volumes in the world; but young Mr. Miller found them remarkably diverting.

Finally, he became so much interested that, like the careful student he was, he made from day to day a series of abstracts and memorada of the matter wherewith he was being entertained, and these he took home, perhaps for more deliberate enjoyment in quiet hours.

He did not let Mr. Brown nor any one else know of the literary treasures he had found, but just read and made abstracts and copies and put them away.

In Charles Reade's once popular novel, "Hard Cash", there is the same incident. Young Skinner, a clerk in Mr. Hardie's bank, becomes greatly interested in the way his employer is keeping his books. So when his employer is out of the building he makes copies of certain real and fabricated balances and takes them home. There is a good scene when the employer starts to dis-

charge the clerk and the clerk flashes these abstracts—very dramatic. It suggests to Reade a nasty remark. He says that man is pre-eminently a cooking animal. He cooks books as well as food.

Of a sudden, one day in September, 1873, Mr. Brown entered the office and hailed young Mr. Miller with glad tidings.

"The Contract and Finance Company has elected you to the office of secretary," said Mr. Brown. "I have resigned and am going to Europe. And now here is a set of new books for you to go to work with."

Young Mr. Miller was duly gratified. He took possession of the nice new books and observed that they had already been opened in Mr. Brown's handwriting, each account starting with a balance apparently carried over from the old books.

About noon he went forth, as was his habit, to his midday repast, leaving Mr. Brown in the office with the old books and with the new. When, an hour later, he returned he found Mr. Brown there and the new books there, but the old books had disappeared, nor did young Mr. Miller ever see them again.

So far as the world knows, only two other persons had that pleasure.

Some time after Mr. Miller had departed in search of luncheon, in came, for no particular purpose, young Mr. Yost. Mr. Yost was private secretary to Mr. Leland Stanford, who was president of the Central Pacific and one of the owners of the Contract and Finance Company. Mr. Yost saw the old books. He saw them in the hands of Uncle Mark Hopkins. And Uncle Mark, with his coat off, was busily at work packing

those books into boxes and fastening the boxes with screws.

The next day Mr. Brown started for Europe. Thereafter all trace of the old books was lost; also all trace of the books of Charles Crocker & Company, the contracting firm to which the Contract and Finance Company was the successor.

By some persons the loss was grievously mourned, these being chiefly persons that had certain lawsuits and needed the books for evidence. But their grief availed them nothing, even when it led them to cause the arrest of the most eminent officers of the Central Pacific and when, in a dirty, common police court, these gentlemen were compelled to declare their ignorance about the books that never were found. According to a current belief in California, these books now repose at the bottom of the River Seine, which is in France; and that seems a very strange place indeed—for books to repose in.

For about a year young Mr. Miller discharged the duties of secretary to the Contract and Finance Company, being also made secretary to the Western Development Company, another very nice company with which we are to deal later. It had the same stockholders as the Contract and Finance Company, the same functions and the same purposes.

Some suspicion then arose that his books and accounts were not in the admirable and apple-pie order to be expected of first-class accountants and really nice companies, and Mr. J. O'B. Gunn, auditor of the Central Pacific, made quiet observation of these matters. On his oral report, young Mr. Miller was arrested and indicted, charged with embezzlement. We are not to

conclude off hand that he had been corrupted by evil example, which is ever in wait for youth, but only that he had grown careless, maybe, or something of that kind.

He was not at once prosecuted, possibly because of his youth or good looks. Instead, certain negotiations began, lasting for a month, in which young Mr. Miller was every day in consultation with the highest officers of the Central Pacific, who were also, by a curious coincidence, the highest officers of the Contract and Finance Company and its sole owners.

After a time, Mr. Miller's wife called upon former Judge N. Greene Curtis (who had once, as an attorney, defended for the Central Pacific a man it desired to save from punishment), and engaged him as her husband's counsel. To him Mr. Miller delivered all his memoranda and abstracts.

The trial of Mr. Miller took place in San Francisco, whither meantime the officers of all the companies here mentioned had been removed. All the witnesses against him were officers and employes of the Central Pacific.

It appears that the prosecution was afflicted with a curious languor, resulting perhaps from the climate, which is known to be at times enervating. At the close of the trial, young Mr. Miller was acquitted. From the courtroom former Judge Curtis went straightway to his room in the Cosmopolitan Hotel, took all the abstracts and memoranda that Mr. Miller had given to him, and put them into the grate, where they were presently consumed in a cheerful blaze.

These abstracts and memoranda were of the actual

cost of the work done by the Contract and Finance Company, and the actual amounts received therefor.

Young Mr. Miller, thus happily cleared from blame, disappeared from the public view. The next heard of him was as a prosperous farmer and owner of a fine ranch in the Sacramento Valley, and as a buyer of coal lands. As previously he had been an accountant at a moderate salary, followed by a year of idleness and (presumably) heavy legal expenses, this affluence occasioned some remark. Mr. Miller farmed on, nevertheless, and so, by a figure of speech, did the Contract and Finance Company, the Western Development Company and the Central Pacific Company.

How successful was the farming of the Contract and Finance Company in behalf of the Central Pacific is not a matter of guess work but of record since the Pacific Railroad Commission dug into the depths of these transactions. It appears that for eight years Central Pacific stock was issued, passed around the circle of the Contract and Finance Company (or some other similar concern) and came by this easy route into the possession of the Worthy Four without costing them a dollar. Year by year this is the way the total mounted of the stock that made this inexpensive and delightful circuit:

Year	Amount
1866	$ 8,580,600
1867	14,923,400
1868	24,679,900
1869	40,168,100
1870	51,079,200
1871	59,644,000
1872	59,644,000
1873	62,608,800

On this stock so issued there was paid in seven years dividends amounting to $12,000,000—all obtained from the public by means of freight and passenger rates based upon this fictitious capitalization. In the last thirty years that fictitious stock has taken from the public not less than $120,000,000 in dividends collected by such rates—an aggregate almost twice the amount of the stock issue. It is collecting that toll now. It will continue to collect it until the public that pays wearies enough of the imposition to cut out the fictitious capitalization upon which the tolls are based.

The Contract and Finance Company continued to build the Central Pacific under the remarkable arrangement I have described from the place where Charles Crocker & Company dropped out to the junction with the Union Pacific, fifty-three miles west of Ogden.

How much of the stocks and bonds it received for this work represented actual construction and how much was surplus was a mystery.

When the Pacific Railroad Commission tried to ascertain the facts, its expert engineer presented to it a statement that the entire line of the Central Pacific from Sacramento to five miles west of Ogden, 687 miles, cost to construct, $32,589,117.93.

Adding the $2,130,000 paid to the Union Pacific for the overlapped parts, this makes the total construction cost $34,719,117.93, or as I have said before, $50,537 a mile.

How much of this again was real nobody knows even now. But supposing it to be right, the Worthy Four had in their possession to offset this expense the following:

United States Government bonds	$27,500,000.00
Central Pacific bonds practically guaranteed by the government	27,500,000.00
Land grant	30,000,000.00
Assistance voted by California counties, etc.	2,000,000.00
	$87,000,000.00
Less alleged cost of construction	34,719,117.93
And depreciation of currency	7,000,000.00
Balance	$45,280,882.07

In other words, they built the road for about one-half of the government subsidy, and pocketed the rest.

But in what shape did they take it? In bonds on which interest must be paid and stock on which dividends must be dug up. And this legacy of tribute they left for the next generation and all others.

Because in the end, all these assets with the $62,000,000 of stock obtained for nothing and all the other perquisites, "melons", good things, grafts, "rake-offs", and clever deals, were merged into one of the most valuable railroad stocks in the world, *on which to this day we are paying the heavy interest charges.*

No sooner was the first transcontinental railroad line opened, the gateway established, and the toll taker at work, than the Four thus pleasantly endowed began to establish other gates to take further toll. They had started with next to nothing apiece, and now, after nine years, they had shared a stupendous fortune that was, indeed, much more than wealth in hand since it was an infallible and unceasing machine for gathering more and still more wealth.

As they constructed the Central Pacific, it stopped at Sacramento, ninety miles east of San Francisco, with

which the Sacramento river connected it, as did also the Western Pacific, another and earlier railroad project, liberally aided with government grants as an incipient transcontinental route. The main line of the Western Pacific had its western terminus at San Jose, fifty miles south of San Francisco.

When the Central Pacific was opened for through transcontinental traffic in connection with the Union Pacific, passengers and freight for San Francisco must make this detour fifty miles southward by way of San Jose after they had left the Central Pacific tracks. From San Jose the Western Pacific had a branch it was building to Oakland on San Francisco's bay and opposite the city.

In 1867 the contractors that had undertaken to build the Western Pacific became embarrassed financially, and the Contract and Finance Company succeeded to the work, completing the line. For this it took in payment all of the Western Pacific stock, issued and unissued, all of its bonds and all of its land grants that had not been allotted to previous contractors. These then become assets of the Contract and Finance Company, which it distributed to its stockholders with other assets.

These stockholders were Messrs. Huntington, Hopkins, Stanford and Crocker, constituting the Central Pacific Railroad Company. The land grants were exceedingly rich, and the possession of the road thus cheaply secured carried the Central Pacific from Sacramento to San Francisco Bay and gave it an invaluable terminus.

We have already noted another rival, the California Pacific, which had been projected to build over the

Beckwith pass through the Sierras to an Eastern connection. In 1869 it was completing its line from Vallejo to Sacramento by a shorter and better route than the Western Pacific. The Central Pacific tried hard to keep the California Pacific from entering Sacramento, and at one time a pitched battle between the armed forces of the two companies was imminent; but while the contestants were waiting for a court decision, the California Pacific stole a march and got into the city.

This was in 1870. Being thus defeated, the Central Pacific had recourse to strategy. In 1871, it agreed to buy the California Pacific for $1,579,000. It had previously secured a contract for the Contract and Finance Company to build and repair certain sections of the California Pacific track. When this work was done, the Contract and Finance Company presented a bill for $1,600,000, which neatly offset the purchase price of the California Pacific stock and left a margin. Some bonds were used as counters in this unique deal, but the substance of it was that the happy four got the California Pacific practically for nothing.

The subtle influences, political and business, that were back of these operations were never revealed. It is certain, however, that they were not of an ordinary business nature; neither the Western Pacific nor the California Pacific fell like plums into the Central Pacific's lap. In the suits of the crowded-out stockholders that I have previously mentioned, the allegation is made that the Central Pacific was responsible for the financial embarrassments of the Western Pacific contractors and that by manipulation the Central Pacific unfairly possessed itself of $2,000,000 of Western

Pacific bonds and $3,000,000 of other securities before it made the contract for the Contract and Finance Company that gave it the line for little or nothing.

These maneuvers have a direct interest for us, because they led to another powerful example of the way this railroad capitalization is made.

As soon as the California Pacific came into their possession, Messrs. Huntington, Hopkins, Stanford and Crocker went through the motions of leasing it to themselves at the rental of $550,000 a year.

That is to say, as directors of the California Pacific, which they had acquired for practically nothing, they rented the property to themselves, as directors of the Central Pacific, which they had acquired for nothing at all, and made the rental $550,000 a year. This they charged to the operating expenses of the Central Pacific, where it still figures. Subsequently they increased the rental to $600,000 a year. The actual value of the entire California Pacific stock when they got it was less than $3,000,000. They would be charging for the property at the rate of 20 per cent a year if the stock represented its real value. But it did not. Twenty-four years later the sworn value of the property was $1,404,935.

In the meantime the rentals on it had amounted to $13,600,000—almost ten times its value, on which the annual rental was 43 per cent. This rental had been paid regularly to the worthy four and charged to the operating expenses of the Central Pacific. It was a part of the exhibit the Central Pacific made whenever it wished to increase rates or reduce wages. It must, of course, make enough money to pay its operating expenses, first, and then returns on the capital in-

vested. We have already seen what the capital invested really was. Here is a good chance to learn things about its operating expenses.

Upon such expenses with others more or still less legitimate, and upon capital piled up as this had been rates were made and are still made that the public must pay. Upon such expenses and such capitalization the railroads go before the Railroad Labor Board and demand and secure a reduction of wages.

CHAPTER V

THE SOUTHERN PACIFIC—(*Continued*)

C. The Sunset Line.

A year or two before Collis P. Huntington died, some newspaper asked him to tell a wondering world how he had accumulated his colossal fortune.

"I made my money," said the sage, "by going into debt."

For some reason the words were regarded in some quarters as a talisman. Young men were urged to regard them thoughtfully as expressing the secret of getting on in the world.

It was not explained to them that Mr. Huntington was indulging in a bit of neat word play. The debt that he went into was never one that he owed to other persons. It was always a debt that he managed to have other persons owe to him and on which he collected gorgeous revenues.

There were other maxims about making money quickly (at the public expense) that Mr. Huntington might have confided to the innocent reporter; maxims illustrated from his own career. For some reason he omitted them, but we need not lose their lesson on that account. Anyone that will go over these records will be able to see what they are.

For instance, the quickest way to make money is to issue and manipulate railroad securities without paying for them.

If you can bond a railroad enterprise, then do its construction work at extravagant or fictitious prices, then take its bonds to pay you for the work and its stock as a bonus you have something better than any gold mine.

You can call all these bonds and stocks "capitalization" and insist that it is holy and sacred and get away with that idea. You can assert that you are entitled to interest and dividends upon it, and the courts and the press and Congress will agree with you. Then you can charge the public whatever rates may be necessary to produce the interest and dividends, and if the rates you charge fall short for any reason Congress will appropriate money from the national treasury to make good the deficit.

You could not do this in any other business. You could not do it in the railroad business in any other country. But you can do it in the railroad business in the United States of America, for here is the proof that you can.

Mr. Huntington had some other ideas about making money, almost as valuable.

One of them was to create a monopoly of the carrying trade and then enjoy the harvest that only a well-designed and extensive monopoly can gather.

When the worthy four got the California Pacific they picked up with it as incidentals two other independent railroad projects, the San Francisco & North Pacific and the San Francisco & Humboldt Bay. These had together a nominal capital of $17,200,000.

Having these highways, Western Pacific and the California Pacific, the Central Pacific had all Califor-

nia in its grip and could charge the public what it might be pleased to charge.

Mr. Huntington seems to have conceived this early in his career as a railroad magnate. To maintain at whatever cost an absolute monopoly of the traffic; to allow the public no chance to escape; and to control the state through the control of the primal necessity of transportation was his idea of good business. For many years he devoted to this object more attention than to all other objects together, until he was obsessed by it.

Now he looked out upon the field and saw his supremacy might be threatened from two directions. On the north, the Northern Pacific was advancing from St. Paul; on the south, he was menaced by the Texas Pacific and others. He determined to fortify both approaches.

He saw that from the south, where the easy routes were, he faced most danger. Therefore, as soon as the Central Pacific was completed, he and his three friends organized a new company, the Southern Pacific Railroad Company, to build a line southeastward from San Francisco and so seize and hold the southern gate.

The new company was constructed upon the lines that had proved so deliciously productive in the case of the Central Pacific. The worthy four of Sacramento were the sole owners. They subscribed for the stock and paid no more for it than the law compelled them to pay in order to organize.

For the rest they depended upon the generosity and gullibility of Congress and upon that staunch and

effective piece of money-making machinery, the Contract and Finance Company.

This company had not gone out of business when the Central was completed. Not for a moment. It had continued to function in its own peculiar way to conceal profits and distribute them where they would do the most good—to Messrs. Huntington, Hopkins, Stanford and Crocker. They had made with it a most remarkable contract, for instance, in regard to the Central Pacific's maintenance and repairs. The Central Pacific provided all the tools, shops, plants and power. The Contract and Finance Company took these and worked them and then charged the Central Pacific ten per cent profit on all the work that was done.

This was then charged to operating expenses and maintenance account, and these accounts thus artificially increased were made the basis of rates for carrying pasengers and freights and a limit for wages.

The 10 per cent thus collected found its way, of course, to the private purses of the worthy four.

The Contract and Finance Company did the collecting. Collecting for its owners was one of the best little things it did.

It was now set to work to perform its peculiar ministrations for the new company, the Southern Pacific.

The first object, we are to remember, was to get the road built without expense to the four and then deliver it as a gift into their hands, with whatever other wealth might be garnered as they went along. But always without expense to them or any investment, if that could be avoided.

Congress was first besought to give its aid, and bestowed upon the Southern Pacific half the land in a

strip forty miles wide along its entire line or (as before noted) 12,800 acres for every mile constructed. The State of California gave thirty acres of land at Mission Bay, San Francisco, an enormously valuable gift. The city of San Francisco gave $1,000,000 in cash; other counties and cities along the line made donations that totaled a little more than $1,000,000.

The contract which the four as the Southern Pacific Railroad Company made with themselves as the Contract and Finance Company called for the building and equipping of the entire line for $40,000 a mile, to be paid in first mortgage bonds "and the balance in capital stock." What was meant by "the balance" was and remains mysterious. The whole road cost to construct about $25,000 a mile. The first mortgage bonds would pay for that and leave a big margin.

All this was lovely—for the gentlemen that got the benefit of it. But there was still one difficulty. The bonds to pay for the construction work could not be issued beyond the issue of stock. The stock could be issued only for cash—or its equivalent—for the law said so. It was necessary, therefore, to get some actual money, ready cash in hand, with which to start the work; also to make a payment upon the stock to be issued to pay for the work. After that all would be easy. Bonds would be issued to the amount of the stock put out. The bonds would pay for the actual work. The stock would be exchanged for the receipted bills of the contracting company as had been done in the case of the Central Pacific. It would then become an asset of the contracting company and be distributed among the stockholders of that company. Those stockholders were the worthy four and they would

thus be endowed with all the stock of the Southern Pacific without paying for it.

But there must be funds to start with.

Now the experience, practice and instincts of the four were all against putting any money of their own into a railroad enterprise. Why should they when they could get other people's and control it as if it were their own? The Central Pacific was now doing a great and profitable business. So they went to the treasury of the Central Pacific and helped themselves to what they needed—cash, coupons, bonds and other useful trifles although strictly speaking these things did not belong even to the Central Pacific but to the government and people of the United States.

Twice they raided the Central Pacific's sinking fund or other surpluses, obtaining once $3,000,000 and once $5,000,000.

With funds so secured much railroad line was built. On lines so constructed bonds were issued, and stock. Bonds and stock so issued were delivered to the Contract and Finance Company in payment of construction work done at abnormal prices. Finally, as assets of this company, the bonds and stock were distributed among its stockholders, exactly in accordance with the desires of the fortunate four and to their great profit.

Not a cent of the stock got upon the market. It all went by this route into the coffers of the four, who got it without paying for it. Also, it all went to be added to the total capitalization of the enterprise upon which passenger and freight rates have been based ever since, and upon which the Railroad Labor Board makes its solemn rulings about wages.

Millions upon millions of so-called capitalization were

thus created by the mere operation of the printing press that printed it. None of it represented investment; none of it any service to the public.

For the railroad might have been constructed out of the bonds and the land grant without a cent of stock. It might almost have been constructed out of the land grant alone.

Much of the nation's land that the government had bestowed upon this private enterprise in fortune making was exceedingly fertile and valuable. Calculating it at but the nominal price, $2.50 an acre, the land grant from San Francisco to the southeastern boundary of California was worth $29,824,000. Supposing the construction to have cost $40,000 a mile, which is $15,000 beyond the actual figures, it would have cost, for the same distance, only $37,000,000.

The Contract and Finance Company functioned well about these peculiar relations, but in 1875 its four owners took the unusual step of disincorporating it, which enabled its affairs to be wound up and its books destroyed.

In its stead was organized the Western Development Company—same ownership (with the addition of David D. Colton), same purposes, and $5,000,000 of capital, of which not a dollar was paid in.

It succeeded to the contracts of the Contract and Finance Company, including the Southern Pacific work. How well it fared on its way through fertile fields we may judge from the fact that on September 4, 1877, two years after it started, it distributed among its stockholders the following assets it had accumulated in its unusual functions:

Southern Pacific stock	$13,500,000
Southern Pacific bonds	6,300,000
Amador Branch bonds	675,000
Berkeley Branch bonds	100,000
Los Angeles Branch bonds	13,500
Amador Branch stock	674,000
Berkeley Branch stock	100,000
Total for this sitting	$21,362,500

The Western Development Company lasted three years, when it followed the Contract and Finance Company into the limbo of things better forgotten, and was succeeded by the Pacific Improvement Company, same owners (except one, for David D. Colton was dead), same purposes, same capital, same absence of payments therefor. This company, inheriting the contracts of the Western Development Company, carried the building of the Southern Pacific to the state boundary at the Colorado River, and thence across Arizona and New Mexico, where had been organized by the same owners the Southern Pacific Railroad Company of Arizona and the Southern Pacific Railroad Company of New Mexico.

The Southern Pacific of Arizona had an authorized capital of $20,000,000 (none of which was paid in), and bonds of $10,000,000. The Southern Pacific of New Mexico had similarly a capital stock of $10,000,000 (none of which was paid in), and bonds of $5,000,000.

The Pacific Improvement Company built for the Arizona road 384.17 miles, and for the New Mexico road 107.25 miles. The contract called for $25,000 a mile in bonds and practically all the stock.

The stock, of course, found its way by the usual cir-

cuit, into the possession of the fortunate four, who thus secured it for nothing.

A few years later, because of the passenger and freight rates based upon this fictitious capitalization, that same stock, for which nothing was paid, which represented no investment but only luck and devices, was worth $137 a share.

When the Southern Pacific was completed it was leased by its owners to themselves as the Central Pacific, the lease being another example of extravagant rentals charged to operating expenses, and thus made the basis for rates and for wages. The Pacific Improvement Company likewise seems to have done a prosperous trade in its line. At a meeting held April 11, 1882, as shown by its minute book, it distributed among its stockholders these securities that it had gathered in its own sweet way:

Southern Pacific of Arizona stock	$19,994,800
Southern Pacific of Arizona bonds	2,572,000
Southern Pacific of New Mexico stocks	6,688,800
Southern Pacific of New Mexico bonds	4,180,000
Monterey Railroad Company stock	284,000
Monterey Railroad Company bonds	248,000
Total at this sitting	$33,967,600

I find also that, in 1894, it transferred to the land department of the Central Pacific Railroad property worth something like $20,000,000, including more than 125,000 acres of rich land and 125 town sites on the line of the Southern Pacific of California. From which I infer that in the midst of other and exacting cares the thrifty owners had not overloked the profit that

lies in knowing where the stations are to be placed when you lay out a railroad.

But to return to earlier history. While the Southern Pacific was reaping bonds and things as it moved eastward, Mr. Henry Villard, in control of the Northern Pacific, was rapidly pushing westward. His main object was Portland, but men foresaw that he would wish to build a branch southward toward San Francisco.

The Central Pacific undertook to check him by building north a line called the California and Oregon Railroad and by forming an amalgamation called the Northern, both constructed in the same way by the Western Development Company or by the Pacific Improvement Company, on terms that filled the coffers of the four gentlemen and piled up capitalization and interest thereon.

I cannot do more than give some bare idea of these operations by citing a few instances from many, for to relate all the myriad sources of profit would fill a great volume. There was one piece of road 103 miles long from Delta, California, to the state line, belonging nominally to the California and Oregon branch of the Central Pacific's happy family and constructed by the Pacific Improvement Company. On this the price charged for construction was $4,500,000 in bonds ad 50,000 shares of stock, together worth in the market $8,340,000. The actual cost of construction was $3,505,609; the net profit, representing also an unnecessary addition to the debt load that we must pay, was $4,834,391.

Mr. Huntington should have added to his formula for making fortunes the ownership of a good, reliable

printing press and the oportunity to issue railroad securities from it. These beat all the maxims that ever were invented.

In the same manner, these gentlemen organized the South Pacific Coast Railroad Company, with a line eighty miles long, on which the bonded indebtedness was $5,500,000 and the stock $6,000,000. The bonds alone represented almost $70,000 a mile. All of the bonds and all of the stock were taken by the Pacific Improvement Company for building the road, and in 1886 the Pacific Improvement Company passed along all of these securities to the Southern Pacific, whose owners had gone through the formality of leasing their property to themselves on an arrangement that left the rental and the interest on the bonds and dividends on the stock (if any dividends were paid) all to be dug out of the road by means of freight and passenger rates.

Similar processes were followed with the Northern and with the Northern California. The Northern was an accretion of ten smaller roads, most of them leased one to another in the manner I have described. Thus the first section was leased to the second at an excessive rental which the second charged to operating expenses. The second was then leased to the third at another excessive rental, including the first, and the third to the fourth until at the end of the line appeared a colossus of rentals mased into huge operating expenses, useful to conceal profits and to fool commissions.

In this instance the Northern Railroad (assumed name—it was really a Southern Pacific enterprise) managed to pile up a stock issue of $9,182,000, with

bonds at the rate of $30,000 a mile for 386 miles, its total mileage. In the end this conglomerate with all its leases was leased to the Southern Pacific and its stock exchanged for Southern Pacific stock in the hands of the toll taker, and the whole thing dumped on us—who pay.

Year after year the interests of these men spread in many directions. Easily; they were known to be immensely rich; they had prestige and power. They went into politics, legislation, banking, land-owning, navigation, religion, education, newspapers, society, and with particularly unfortunate results to the public they went into street railroads. They increased their investments and power and turned the profits made from one greedy enterprise into power to secure more greedy enterprises and gain more profits and more power.

Sometimes abnormal power like this is used as a bandit uses his pistol, sometimes as a confidence man uses his skill and daring. The next incident we are to relate the reader can easily classify for himself. I may remark that as an exception to the general rule it has little connection with the subject of capitalization, which we are pursuing in this humble treatise, but is thrown in for our refreshing as we go along. Also to show how great and lawless is the might that we in this country have allowed organized wealth to assume.

We go back first to the stage coach days. When John Butterfield's twenty-one-day stage from St. Louis via El Paso to San Francisco had been well established, the business grew too great for an individual, and a company took charge of it. The Civil War, as I have said, forced the stages from the easy southern route to

a road across the center of the country, beginning at Omaha.

With this change the company was reorganized and, under its new name, Wells Fargo and Company, with Louis McLane of New York as its manager, soon became an institution in the West, operating a great express and banking business as well as stage coaches. When the Central Pacific was completed, Wells Fargo and Company entered into an arrangement to carry on express operations over the railroad.

The next year, however, 1870, the Wells Fargo people were dismayed to learn that Messrs. Stanford, Huntington, Hopkins and Crocker, with Mr. Lloyd Tevis, had organized the Pacific Express Company and purposed to compete for the express-carrying trade. Competition with the men that owned the railroad and could do what they pleased with rates was no competition at all, but merely a game of stand and deliver.

The Pacific Express Company went no farther than to print some stationery and open an office, when Wells Fargo and Company surrendered. For a gift of one-third of the capital stock of Wells Fargo and Company, the Pacific Express Company agreed to go out of business.

One-third of the Wells Fargo stock was $3,333,-333.33, thus acquired for the cost of a bunch of stationery. This seems fairly good business.

Afterward the new stockholders put up one-third of $500,000 to develop the banking end of the Wells Fargo concern. Still later, $1,250,000 of Wells Fargo stock was issued to the Central and Southern Pacific (Stanford, Huntington, Hopkins and Crocker) in return for a new traffic arrangement, and the whole

great business of the express company passed into the hands of the railroad, where it remained until the beginning of 1910. Then a new organization brought forth fresh melons, more water and more tribute from the nation.

These I cite as examples of the great profits. But the thrift of the fortunate gentlemen despised not the day of small things.

They built for $40,000 a bridge over the Colorado River, and owning it themselves, they leased it to the Southern Pacific, which they controlled, at $12,000 a year, and this they charged into the railroad's operating expenses and made a basis for rates.

They bought the steamer Solano, worth $100,000, and, owning it themselves, they leased it to the Northern Railroad, which they controlled, at $90,000 a year, and they charged the $90,000 into that railroad's operation expenses and made it likewise a basis for rates.

They added to the capital items that represented no investment, and they added to the operating expenses items that were only curtains to conceal profits they gathered, and they made these also a basis for rates.

All this time at the old original Central Pacific gateway, the takings had been goodly and incessant. As soon as the cars began to run over the Sierra Nevada, the surplus earnings began to accumulate. At first these seem to have been used to build other lines, but by September, 1873, the business was so good that, in addition to the money slipped over to side enterprises, there was plainly enough for a dividend. From that time and with the exceptions of 1878 and 1879, the dividends ranged from 6 to 10 per cent a year until 1884.

Then, without explanation, the dividends stopped. That same year, 1884, the stock was quoted at 80 and more, though it could not be said to be on the market, and now, for the first time, the owners parted with their control of it. The bulk of their holdings in Central Pacific they sold to an English syndicate under a remarkable arrangement that left the original holders still in the management of the property. After that the road ceased to be profitable. It is to be remembered that only Central Pacific stock was sold. The original holders retained their stock in the Southern Pacific, which might now, of course, be deemed to be a rival line to the Central Pacific—from whose earnings, in part, it had been built.

It appears that at this time there was no lack of freight, of income nor of prosperity with the Southern Pacific. The blight that had fallen upon the enterprise was confined to the Central Pacific.

After this had lasted for some years, the English stockholders sent over Sir Charles Rivers Wilson, who was afterward president of the Grand Trunk Railroad, to see what could be done to help them in their predicament. Wilson succeeded in wresting from the four an agreement that the English stockholders were to have 1 per cent a year on their holdings until an "adjustment" could be made with the United States government concerning the Central Pacific's debt; after which they might hope for more.

"Adjustment" was the word used. What was really meant, as afterward appeared, was something quite different. The government had issued bonds to enable the Central Pacific to be built. These bonds, origi-

nally a first mortgage on the property, had been changed by Mr. Huntington's skillful work in Washington into a second mortgage. But mortgage they still were and therefore a burden upon the property. No interest had ever been paid upon them by the railroad company; the government had been advancing interest as it had advanced the principal. Many persons believed that some day the obligation thus accumulating must be met. So long as it remained it kept down the value of the stock. The managers of the company hoped to be able to induce Congress to cancel the obligation. That was what they meant by "adjustment."

Before the truce with the English stockholders was concluded, Wilson is said to have made a report on conditions as he found them, and this report is said to have been known to the officers of the Southern Pacific Railroad Company, and is also said to have contained some extremely plain language of a kind that would have been very interesting indeed to the American public if it had made its way into the press.

The market price of the stock declined until it reached 7½. Subsequently it was understood that the English investors had disposed of their holdings at the bottom figures, and in 1889, the public learned that the stock had found its way back to its original holders.

I trust that the essence of this transaction is sufficiently clear without further elaboration.

But to return to our chronology.

Here is a list of the dividends paid before the unfortunate English came into the road;

Dividend No.	Date.	Rate.	Amount Paid.
1	September 13, 1873	3	$1,628,265
2	August 4, 1874	5	2,713,775
3	April 1, 1875	6	3,256,530
4	October 1, 1875	4	2,171,020
5	April 3, 1876	4	2,171,020
6	October 2, 1876	4	2,171,020
7	April 2, 1877	4	2,171,020
8	October 1, 1877	4	2,171,020
9	February 1, 1880	3	1,628,265
10	August 1, 1880	3	1,778,265
11	February 1, 1881	3	1,778,265
12	August 1, 1881	3	1,778,265
13	February 1, 1882	3	1,778,265
14	August 1, 1882	3	1,778,265
15	February 1, 1883	3	1,778,265
16	August 1, 1883	3	1,778,265
17	January 15, 1884	3	1,778,265
			$34,308,055

All this upon stock for which nothing was paid, that represented in no way an investment in the enterprise, but was regarded nevertheless as a basis for the passenger and freight rates that collected from the public the dividends to be viewed in the above table.

To this day it is regarded as such a basis. Because of it rates are increased; wages are diminished.

I have still to relate the marvelous success that attended the efforts of Mr. Huntington to win donations from Congress. This I will reserve for another chapter that we may examine at leisure what relation it had to capitalization, rates and wages. But we might do well to pause at the year 1884, when temporarily Central Pacific stock passed out of the hands of the original owners, and see how they had fared.

They started in 1861 *with a total wealth among them, according to their sworn statements, of* $108,-987.

In twenty-three years they had won $34,308,055 *in dividends on their original enterprise, had enjoyed the almost incalculable profits arising from mechanical million-making contrivances such as the Contract and Finance Company and the Western Development Company, and they and their heirs and asociates controlled* 5,906 *miles of railroad with total capital stock of* $219,000,000 *and bonds of* $235,000,000, *a total capitalization of* $454,000,000.

Colossal wealth—and colossal power to gain more wealth to become in turn more power.

Whosoever holds the highways of any country holds that country. True is that word. You can see its truth here.

Aside from this, if the fortunes made in the way I have described could have remained merely fortunes, segregated and enjoyed by their owners, we could read of them and wonder and pass on. But the truth is that the making of these fortunes, created out of debt and based in reality upon the power to tax the public, was the origin of a great and steadily growing evil, now become more menacing than any problem any nation has ever dealt with.

Look back and see. When, in 1880-81, the Southern Pacific was completed across New Mexico, and leased to the Central Pacific, Mr. Huntington, always the controlling spirit, saw his way to great strides in railroad combination. Tom Scott had failed to build his Texas Pacific to California and was out of the way. No other rival need be feared in the South.

Mr. Huntington and his friends organized the Southern Development Company on the lines of the old Contract and Finance Company and for the same purpose.

Through this concern, and in other ways, he built and absorbed lines in Texas and Louisiana until he had a railroad through from San Francisco to New Orleans, with connecting steamships thence to New York. Then he effected consolidations of all the roads owned and leased by the Sacramento Big Four, issued flood after flood of stocks, exchanged all the stock issued for construction into the dividend-paying securities of the amalgamated company, and finally massed the whole into the Southern Pacific Company, of Kentucky, with $74,866,463 of preferred and $197,849,259 of common stock, paying 7 per cent dividends on the preferred and 6 per cent on the common, and owning besides $415,330,000 of stock in proprietary companies, to say nothing of bonds—an exhibit at which the observer may well stand aghast, and to which there is no parallel in the world.

For most of these stocks no money was ever paid. They represent no investment. Only clever and successful scheming.

On all of them we furnish year by year the profits, collected from the living expenses of the masses.

In this grand total of dividend-bearing securities is included all the stocks gathered in so many devious ways by the Contract and Finance Company, the Western Development Company, and the Pacific Improvement Company, so that not one dollar represented by these transactions is today without its direct significance to you and me, for we furnish those dividends.

CHAPTER VI

THE SOUTHERN PACIFIC (*Continued*)

D. The Control of Government.

In a little more than two decades—1898 to 1920—American railroad rates, both passenger and freight, were practically doubled.

After 1920 when the railroads secured their greatest rate increase, the same railroads made ceaseless efforts to have railroad wages reduced. In the end they got a majority of the Railroad Labor Board to agree with them.

In all these controversies, about rates and about wages, the plea of the railroads was that without more money and less expense they could not earn a profit on their capitalization.

In the railroad business, then, everything turns on capitalization. We have seen from sample chapters of history how a part of this capitalization is made and why it is that the public must pay high rates and the employes have low wages to meet these demands. We ought now to go a little farther and observe the railroad in politics and see how that bears upon the capitalization question.

It is said that railroads do not meddle now in political matters as once they did, and therefore we should forget the old days when they bought conventions, "persuaded" Congressmen and kept politicians on their salary lists.

We need pay no attention to any such advice. In the first place, the railroads are just as much in politics now as they ever were; as much and more. Not in the old ways; that is true enough. Methods have changed; the essential fact remains. In the next place, the crude methods of other days, when a man with a fountain pen and a book of blank passes used to stand at the door of a state convention and buy delegates as he would buy potatoes, had plainly a most direct relation to this supreme matter of capitalization. The more refined methods of today have a relation to the same matter, as certain if not as obvious.

When railroads used to buy a legislature or bribe a governor or corrupt a Congressional district they added the cost to the capitalization, and it is there now, and we have to pay for it with the rest. We set out to examine the different kinds of capitalization on which rates are based and wages reduced. Here is one that we cannot overlook however much the hired pen valets of the reactionary press advise us to forget it.

But first I wish to go back to that statement of mine that the railroads are in politics just as much as they ever were, because it will probably be attacked, or questioned, and we may as well see whether I am right or the various writing parrots that will fall foul of it.

A report of the Interstate Commerce Commission of 1921 says that the capital stock of all the American railroads consists of 97,475,776 shares, of which a majority, or 50,873,322 shares, are held by 8,031 stockholders.

This proves that the control of the whole railroad system is in the hands of a few very wealthy men and enterprises.

These 8,031 stockholders include corporations, trusts, voting trustees, estates, banks and the like. They also include the 24,638,407 shares of railroad stock that are held by other railroads. Other railroads, voting trusts and corporations own 42,000,000 shares of American railroad stock, or nearly one-half of the whole.

To this startling fact almost no attention has been had. Yet it has a world of meaning. It means that the ownership of the American railroads is drifting steadily into the hands of the great Central Financial Interests that control the country's currency and banking, are absorbing daily its great basic industries and are manifestly shaping its policies.

Ten years ago the Supreme Court ordered the separation of the Union Pacific and Southern Pacific, on the ground that when they had been combined by E. H. Harriman the Anti-Trust act of the venerable Sherman had been violated.

For some time the order caused perplexity in our highest government circles. At last a happy solution was found. It was that the Southern Pacific should be taken over by the interests that controlled the Pennsylvania and the Union Pacific by the interests that controlled the Baltimore & Ohio.

When this had been neatly arranged some mischief maker turned up the engaging fact that the interests that controlled the Pennsylvania and the interests that controlled the Baltimore & Ohio were the same.

The discovery caused comment then. It would cause none now. It would be exactly what we expect. For there is now no competition among the railroads. Gradually all have been pulled nearer and nearer to

the overshadowing and all-powerful combination that hourly multiplies its power as it multiplies its holdings.

To say that this great power is not in politics and does not interfere with government is preposterous.

It does not bribe delegates nor hire bosses. It puts forth its irresistible influence upon the seat of government, and the next thing we know the United States has annexed Nicaragua at the behest of one banking house and Hayti at the comand of another and violates its pledged faith to the Philippines at the suggestion of another.

It is no longer necessary to buy conventions and deal in vulgar briberies. Let ten thousand newspapers report to us every day the same invention and we go to the polls and vote as the Interests desire, no matter if with the same ballot we vote away our liberties.

Great Interests are always in politics. They thrive by privilege. From government they obtain the privilege upon which they thrive. The more they thrive the greater their power; the greater their power the more they thrive. It is the simplest thing in the world and the surest.

If any man thinks the Interests that control the railroads are not in politics let him contemplate the fate of every man and every party that has undertaken to combat those Interests.

Let him read the recent history of North Dakota.

Methods change. The essential fact remains. Privilege is the gift of government now as surely as when Collis P. Huntington first projected his huge frame and magical manner of "explaining things" upon a susceptible Congress.

If there had been nothing else the early relations of the fortunate four of Sacramento to the fountain head of privilege would have been enough to lead them into politics. Mr. Huntington had induced the federal government to issue in their behalf $27,000,000 of government bonds. These were a lien on their property; they were obligated to pay the semi-annual interest on it. So far they had defaulted on these payments. They purposed to continue to default on them and in the end to dodge principal as well as interest.

Their only chance to succeed in any such scheme was to become a great political power, and first of all to own the state of California and wield it as a solid block in Congress and in the national conventions.

There was also to be considered the chance of enormous profits that lay in getting from Congress more rich grants from the public domain for their various plans of railroad extension, because in one such grant would lie a return greater than the entire cost of political control, including the expenses of "explaining" many things to many public men; and there must have been something very alluring in the idea of defraying by public grants the cost of heading off competition and maintaining the traffic monopoly of the West.

The wonderful career of Mr. Huntington in Washington showed the way by which these things could be done. He had laid the cornerstone of the enterprise in political manipulation and the secret control of public officers. But for his achievements with Congress there would have been no great fortunes for him and his associates, and without the like achievements in Sacramento and Washington no more millions could

be added to these fortunes even if still greater disasters did not occur.

Governor Stanford at all times, Mr. Crocker much of the time, and Mr. Hopkins some of the time, looked out for Sacramento. I shall recite now some of the strange expenditures they made. In some cases these were charged up to "expense," in some to "legal expenses;" in all cases they were without explanation. You are to understand that I am quoting from an incomplete list, covering only a few of the years:

1875.		
Dec. 31.	Leland Stanford	$171,781.89
Dec. 31.	Leland Stanford	8,877.15
No date.	Leland Stanford	15,137.00
Dec. 31.	Leland Stanford	15,177.33
1876.		
Feb. 6.	Western Development Company	26,000.00
Feb. 8.	Leland Stanford	20,000.00
Feb. 17.	Leland Standord	20,000.00
July 30 to Sept. 30, 1877.	Leland Stanford	83,418.09
Aug. 30.	D. D. Colton	1,000.00
Sept. 22.	Western Development Company	50,000.00
Sept. 22.	Western Development Company	29,974.13
Nov. 2.	D. D. Colton	7,500.00
1877.		
Sept. 7.	Leland Stanford	50,000.00
Oct. 26.	Mark Hopkins	5,000.00
Nov. 1.	Leland Stanford	83,418.00
Dec. 27.	Leland Stanford	52,500.00
1878.		
Feb. 14.	Leland Stanford	10,000.00
June 7.	Leland Stanford	13,000.00
June 28.	Leland Stanford	111,431.25
Sept. 3.	Leland Stanford	12,000.00
Sept. 4.	S. T. Gage	3,000.00
Sept. 27.	Leland Stanford	38,156.03
Oct. 4.	D. D. Colton	3,290.00

Nov. 12.	Leland Stanford	48,816.94
Nov. 12.	Leland Stanford	18,168.71
1879.		
Mar. 25.	C. Crocker	26,452.60
Mar. 28.	C. Crocker	3,100.00
May 1.	C. Crocker	40,000.00
May 6.	C. Crocker	40,000.00
June 29.	Western Development Company	40,745.25
July 23.	Leland Stanford	500.00
Aug. 2.	Leland Stanford	789.50
Sept. 27.	Leland Stanford	38,156.03

When the Pacific Railroad Commission sought to learn something about these expenditures Mr. Stanford, under oath, could not remember about them or else took refuge in a refusal to answer, whereupon Justice Field and Justice Lorenzo Sawyer of the United States Courts sustained his refusal.

Then the Commission tried to obtain from Charles F. Crocker, Vice-President of the railroad and son of the original contractor, some explanation of these and cognate mysteries. I will give a specimen of Mr. Crocker's explanations. He was asked:

"What was the nature of these payments?"

To which he answered lucidly: "They were general in their character."

On being pressed for a more specific definition he said that they were "expenses for various purposes." Being again pressed to be explicit, he said:

"Anything and everything that they [the officers of the company] might consider advantageous to the company and which required the expenditure of money."

Question—Do you know, directly or indirectly, of the expenditure of any money on account of the Cen-

tral Pacific Railroad Company for the purpose of influencing legislation?

Mr. Cohen (attorney for the company and, strangely enough, the man that had brought the suits for the cast-out stockholders)—I advise you not to answer that question.

Witness—By advice of counsel I decline to answer that question.

Corruption at Sacramento was organized on a business basis. A certain number of senators and representatives were regularly carried on the pay roll as "negatives"—that is, to kill any legislation the railroad wished to have killed. But for positive action, passing laws that the railroad wished to have passed or electing United States senators that the railroad had nominated, there was another tariff. Of course every excursion into the legislative vote market was charged to "legal expenses" whence it went into that capitalization upon which we are privileged to pay our substance in the increased cost of living.

In 1885 Mr. Stanford had himself elected to the United States Senate. The flood of company money toward Sacramento appears from the records to have reached at that time high-water mark. Some persons averred it cost a million dollars to put him over. Whatever the expense might have been, it was borne by the railroad company and went into the capitalization thereof.

We shall now, if you please, return to Mr. Huntington in Washington and see how he fared in the underworld. It is really an extraordinary story, for he went there a country merchant without experience in public affairs, without acquaintance or influence, and he man-

aged to win from Congress first one huge grab at the public resources and then another, until he appeared the king of all lobbyists. In the history of Congress no man has come before it with bolder propositions of private gain nor maintained them with anything like his success.

Yet about this we should be under no misapprehension. Mr. Huntington was no wonder-worker, no spellbinder, no wielder of the magic of eloquence. He was a practical man. We are not to believe that he entered Washington an unlettered trader and by force of argument swayed great statesmen to his will. His method was to lead against Congress a band of legislative experts, well supplied with money; they did the rest.

From 1862 to 1896, he spent most of his time in Washington and attended and narrowly scrutinized every session of Congress. In those thirty-four years he passed through Congress many bills that he wanted to have passed; he killed many bills that he wanted to have killed; he utterly wrecked and ruined the almost life-long plans of his one great competitor; he exercised in all administrations and upon most departments a sinister and imperial power; and on only two occasions was he really defeated.

The history of parliamentary govèrnment shows no fellow to this career.

I am going to let Mr. Huntington tell what he will about it.

He had in his employ in 1862, and for many years thereafter, one General Franchot, quite well known in Washington; also one Beard, one Bliss, and others. Before the Pacific Railroad Commission in 1887, he

was asked about the nature of General Franchot's ministrations.

"He was," said Mr. Huntington, largely, "a very honorable man whom I had known since I was a boy, and he had my entire confidence."

The Commission had discovered (from other sources) that Franchot drew from Mr. Huntington $30,000 or $40,000 every year without vouchers, and Mr. Huntington was asked to throw light on this strange fact. He said:

"We had to get men to explain a thousand things. A man who has not had the experience could hardly imagine the number of people that you have to explain these matters to."

Still the Commission was not quite content with this luminous answer and wanted to know more. It appeared that in 1873, for instance, General Franchot's work in Washington had cost $61,000, without any vouchers. Mr. Huntington sounded still the pipe of praise.

"He was," said he, "of the strictest integrity and as pure a man as ever lived; and when he said to us 'I want $10,000,' I knew it was proper to let him have it."

Examination by Commissioner Anderson:

QUESTION.—How could Mr. Franchot personally earn $30,000 or $40,000 a year in explaining things to members of Congress?

ANSWER.—He had to get help. He had lots of attorneys to help him.

Q.—Whom did he have?

A.—I never asked him.

Q.—How do you know he had?

A.—Because he told me so. He said, "For these explanations I have to pay out a little here and a little there and that aggregates a great deal."

Q.—In addition to explaining with words do you not suppose they explained with champagne and expensive dinners?

A.—Very likely. I never gave a dinner in Washington.

Q.—Was not a great deal of it spent in cigars and champagne dinners?

A.—I think so. Not so much, but perhaps some of it was to get some able man to sit down and explain in the broadest sense what we wanted to have done.

It appears that up to 1887, the total expenditures of the Southern Pacific at Washington (without adequate vouchers) were $5,497,593. The important point about these expenditures is that they were of money that really belonged to the people of the United States because it was money that should have been paid into the National Treasury as interest on the road's indebtedness. To use public funds to induce public servants to give away more public funds seems an extraordinary achievement in the history of legislation, but one of which the Southern Pacific gentlemen seemed easily capable.

Subsequently Mr. Huntington, examined under oath, was asked this question:

Q.—In regard to the range of discussion that was to be permitted between the members of Congress and the apostles that you sent to them, was that generally confined to Mr. Franchot and Mr. Sherrill, or did you take a hand in that?

A.—Probably it was done more or less by General Franchot, Mr. Sherrill and myself.

Q.—As a matter of fact, did they from time to time consult with you?

A.—They did.

And then for the first and only time in all these examinations Mr. Huntington was shaken out of his wary self-possession and ability to dodge and twist.

Q.—But what I want to get at particularly is that no portion of these moneys was to be considered as covered by the ordinary expenditures of a railroad for purchases of property and materials. Those would be specific vouchers. So that as to all the unexplained vouchers we may assume that they were for moneys expended for imparting information to Congress, or to the departments, or for some purpose of that character?

A.—That I cannot say. Most of the money was expended, no doubt, to prevent Congress and the Departments from robbing us of our property.

I put down all these things to complete the study of the origin of railroad capitalization, that strange thing on which rates are based and by which wages must be determined. It is also a study of an intensely interesting human document. You observe, no doubt, how agilely Mr. Huntington glides over the thinnest places and how honest he looks, how plausible he makes his cause look.

Eleven years of expenditures for "explaining" things in behalf of the Central Pacific and Southern Pacific—being some of the unexplained vouchers charged to "expenses" upon which the officers of the company refused to throw any light—make this showing:

1870	$ 63,581.03
1871	13,498.72
1872	73,361.83
1873	7,348.46
1874	52,844.94
1875	197,311.54
1876	299,301.37
1877	279,573.06
1878	471,081.06
1879	244,298.08
1880	197,809.36
Total	$1,900,009.83

In the foregoing lists the most interesting exhibits are those of 1877-78 when Huntington was defeating Tom Scott, and for the years in which the legislature was in session at Sacramento. In running over the lists of unexplained expenditures one can usually define the legislative sessions by the crowded entries.

In 1884 the sums drawn by Charles F. Crocker without explanation total $404,710 and in the early part of 1885, $55,000. S. T. Gage, one of the railroad's legislative agents, drew out $18,150 in 1884 and $119,341 in the first part of 1885—about the time that Leland Stanford was drawing $40,066.95 for a similarly unexplained purpose.

Here is the way some of these items look in the records for part of one month:

1885.		
Mar. 7.	S. T. Gage	$ 2,500.00
Mar. 10.	Chas. F. Crocker	5,000.00
Mar. 12.	S. T. Gage	3,000.00
Mar. 16.	Chas. F. Crocker	29,000.00
Mar. 17.	S. T. Gage	31,000.00
Mar. 18.	S. T. Gage	3,000.00
Mar. 19.	S. T. Gage	9,000.00
Mar. 20.	S. T. Gage	15,000.00
Mar. 21.	S. T. Gage	21,000.00
Mar. 23.	Chas. F. Crocker	15,500.00
Mar. 23.	S. T. Gage for H. H. Cummings	1,250.00
Mar. 23.	S. T. Gage	8,500.00
	Total	$153,750.00

All without explanation. The legislature was in session. It was the legislature that about this time elected Leland Stanford to the United States Senate to succeed J. T. Farley, Democrat.

Mr. Huntington was not pleased with the legisla-

ture's choice. For years he and Stanford had been growing estranged. The reason is generally understood in California; but being related to private life and scandal need not be gone into here. Huntington had thought A. A. Sargent should go back to the Senate and he took unusual ways to make known his resentment when Stanford took the place for himself.

In 1888 he suddenly gave out an interview containing a statement that was construed to mean that Stanford had paid $500,000 of the railroad company's money for his election to the Senate. This angered Stanford and an open breach was imminent. It was patched up in some way, the common report being that Stanford had threatened Huntington with counter revelations equally damaging.

Subsequently Huntington revenged himself by securing Stanford's removal as president of the Central Pacific, which place he had held continuously since the organization of the company in 1861.

Very interesting disclosures might have been made on both sides concerning other uses of the company's money. Thus it appears now that one of the most famous editors of San Francisco was on the pay roll at $10,000 a year, a famous Washington correspondent for a well-known New York newspaper received $5,000 a year, and one reading the lists is continually startled by the recurrence of names that are also the names of senators and public officers very prominent in their day.

All of these expenditures are unexplained otherwise than as "expenses" or "legal expenses."

But the final light as to Mr. Huntington's methods in Washington and what he meant by "explaining

things" is contained in his letters to General David D. Colton, the new stockholder in the Western Development Company and now become Mr. Huntington's intimate friend and confidant. General Colton was strictly enjoined by Mr. Huntington to destroy these letters as soon as he had read them. It is remarkable light upon the morality that guided these operations that he destroyed none of them but carefully kept them all. As many of them were incriminating, men of the world may surmise with what thought they were preserved. After General Colton's death Messrs. Huntington, Hopkins, Stanford and Crocker deprived his widow of the share in the assets of various companies to which she thought she was entitled. She brought suit and in the proceedings these letters were part of the plaintiff's exhibit.

New York, November 6, 1874.

Friend Colton: As you now seem to be one of us I shall number your letters, or rather mine to you, as with those sent to my other associates in California * * * I notice what you say of Hager and Luttrell, and notwithstanding what T. says, I know he can be persuaded to do what is right in relation to the C. P. and S. P., but some political friend must see him, and not a railroad man, for if any of our men went to see him he would be sure to lie about it and say that money was offered him, but some friend must see him and give him solid reasons why he should help his friends. Your truly, C. P. Huntington.

The congressional directories give the names of John S. Hager, of San Francisco, as a Senator from California in the Forty-third Congress and John K. Luttrell, of Santa Rosa, as a Representative in the Forty-fifth Congress.

NEW YORK, November 20, 1874.

FRIEND COLTON: Herewith I send you copy of bill that Tom Scott proposes to put through Congress this winter. Now I wish you would at once get as many of the associates together as you can and let me know what you then want. Scott sent me these copies fixed as he wants them and asked me to help him pass them through Congress, or if I would not do it as he has fixed them, then he asked me to fix it so that I will, or in a way that I will support it.

Now do attend to this at once and in the meantime I will fix it here and then see how near we are together when yours gets here. Scott is prepared to pay or promises to pay a large amount of money to pass his bill, but I do not think he can pass it, although I think that this coming session of Congress will be composed of the hungriest set of men that ever got together and the d—— only knows what they will do. * * *

Would it not be well for you to send some party down to Arizona to get a bill to build in the Territorial legislature granting the right to build a R. R. east from the Colorado River (leaving the river near Fort Mojave), have the franchise free from taxation on its property and so that the rates of fare and freight cannot be interfered with until the dividends of the common stock shall exceed ten per cent? I think that would be as good as a land grant. It would not do to have it known that we had any interest in it, for the reason that it would cost us much more money to get such a bill through if it was known that it was for us. And then Scott would fight it if he thought we had anything to do with it. If such a bill was passed, I think there could at least be got from Congress a wide strip for right of way, machine shops, etc. Yours truly, C. P. HUNTINGTON.

NEW YORK, December 1, 1874.

FRIEND COLTON: Your letters of November 20th, 21st and 22nd are received. * * * Has any of our people endeavored to do anything with Lowe and Frisbie? They are both men that can be convinced. * * * I will see Luttrell when he comes over and talk with him, and maybe he and we can work together, but if we can brush him out it would have a good effect and then we could do or at least try to get some better timber

to work with. * * * And in this connection it would help us very much if we could fix up California Pacific income and extensions on the basis we talked of even if we had to pay something to convince Lowe and Frisbie. Yours truly, C. P. HUNTINGTON.

New York, May 1, 1875.

Friend Colton: Yours of the 17th of April, No. 17, is received and contents carefully noted. * * * I notice what you say of Luttrell; he is a wild hog; don't let him come back to Washington, but as the House is to be largely Democratic, and if he was to be defeated, likely it would be charged to us, hence I should think it would be well to beat him with a Democrat; but I would defeat him anyway and if he got the nomination, put up another Democrat and run against him, and in that way elect a Republican. Beat him. Your truly, C. P. Huntington.

New York, September 27, 1875.

Friend Colton: Yours of the 18th with inclosure as stated is received. * * * Scott is making the strongest possible effort to pass his bill the coming session of Congress. * * * If we had a franchise to build a road or two roads through Arizona (we contracting, but having it in the name of another party) then have some party in Washington to make a local fight and asking for the guarantee of their bonds by the United States, and if that could not be obtained, offering to build the road without any, and it could be used against Scott in such a way that I do not believe any politician would dare vote for it. Can you have Safford call the legislature together and grant such charters as we want at a cost of say $25,000? If we could get such a charter as I spoke of to you it would be worth much money to us. * * * Yours truly, C. P. Huntington.

Safford was Governor of Arizona.

New York, October 19, 1875.

Friend Colton: I have given Gilbert C. Walker a letter to you. He is a member of the forty-fourth Congress, ex-Governor of Virginia, and a slippery fellow, and I rather think in Scott's interest, but not sure. I gave him a pass over C. P. and got one for him on U. P. So do the best you can with him but do not trust him much. Yours truly, C. P. Huntington.

The Congressional Directory gives the name of Gilbert C. Walker of Richmond, Virginia, as a member of the Forty-fourth Congress.

New York, November 10, 1875.

Friend Colton: Dr. Gwin is also here. I think the doctor can do us some good if he can work under cover, but if he is to come to the surface as our man I think it would be better that he should not come, as he is very obnoxious to very many on the Republican side of the House. * * * I am, however, disposed to think that Gwin can do us some good; but not as our agent but as an anti-subsidy Democrat, and also as a Southern man with much influence. * * * But Gwin must not be known as our man. * * * Yours etc., C. P. Huntington.

William M. Gwin, of San Francisco, appears in the Congressional directories as a Senator from California in the Thirty-sixth Congress.

December 10, 1875.

Friend Colton: I had a talk with Bristow, Secretary of the Treasury. He will be likely to help us fix up our matters with the government on a fair basis. Yours truly, C. P. Huntington.

Benjamin H. Bristow, of Kentucky, was Secretary of the Treasury in the second administration of Grant.

Here are extracts from other letters signed, "Yours truly, C. P. Huntington," and addressed "Friend Colton":

New York, December 22, 1875.

* * * I think the Doctor will return to California in January. I have just returned from Washington. The doctor [Gwin] was unfortunate about the R. R. committee; that is, there was not a man put on the committee that was on his list, and I must say that I was deceived and he was often with Kerr and K was at his rooms and spent nearly one evening. The committee is not necessarily a Texas Pacific, but it is a commercial com. and I have not much fear but that they can be convinced that ours is the right bill for the country. If things

could have been left as we fixed them last winter there would have been little difficulty in defeating Scott's bill; but their only argument is it is controlled by the Central. That does not amount to much beyond this: It allows members to vote for Scott's bill for one reason, and give the other, that it was to break up a great monopoly. etc. If these damn interviewers would keep out of the way it would be much easier traveling.

Michael C. Kerr, of Indiana, was Speaker of the House.

"Yours of December 30th and the 1st inst., Nos. 120 and 121 received; also your telegram that William B. Carr has had for his services $60,000 S. P. bonds; then asking how much more I think his services are worth for the future. That is a very difficult question to answer as I do not know how many years Mr. Carr has been in our employ or how far in the future we should want him. In view of the many things we now have before Congress, and also in this sinking fund that we wish to establish, in which we propose to put all the company's lands in Utah and Nevada, it is very important that his friends in Washington should be with us, and if that could be brought about by paying Carr, say $10,000 to $20,000 per year, I think we could afford to do it, but of course not until he had controlled his friends. They could hurt us very much in this land matter, although I would not propose to put the land in at any more than it is worth, say $2.50 an acre. I would like to have you get a written proposition from Carr in which he would agree to control his friends for a fixed sum, then send it to me. * * *

William B. Carr was an influential politician in San Francisco.

New York, January 17, 1876.

* * * I have received several letters and telegrams from Washington today, all calling me there, as Scott will certainly pass his Texas Pacific bill if I do not come over and I shall go over tonight, but I think he could not pass his bill if I should help him; but of course I cannot know this for certain, and just what effort to make against him is what troubles me. It costs money to fix things so that I would know that his bill would not

pass. I believe with $200,000 I can pass our bill, but I take it that it is not worth this much to us.

NEW YORK, January 29, 1876.

* * * * Then on our side we have Sargent, Booth, Jones, Cole, and Gorham in the Senate to help us. * * * Scott is working mostly among the commercial men. He switched Senator Spencer of Alabama, and Walker of Virginia, this week, but you know they can be switched back with proper arguments when they are wanted; but Scott is asking for so much that he can promise largely to pay when he wins, and you know I keep on high ground. All the members in the House from California are doing first rate except Piper, and he is a damned hog; anyway you can fix him. I wish you would write a letter to Lutrrell saying that I say he is doing first rate, and is very able, etc., and send me a copy.

According to the congressional directories Aaron A. Sargent and Newton Booth were Senators from California. John P. Jones was a Senator from Nevada. Cornelius Cole had been a Senator from California in the Forty-third Congress. George C. Gorham was Secretary of the Senate. The name "George C. Gorham," appears in the Huntington accounts. George E. Spencer was a Senator from Alabama in the Forty-fifth Congress. Gilbert C. Walker was a Representative from Virginia. William A. Piper was a Representative from California. He was of radical views. By this time it would seem that Luttrell had been convinced.

NEW YORK, April 27, 1876.

* * * Scott has several parties here that I think do nothing else except write articles against the Central Pacific and its managers, then get them published in such papers as he can get to publish them at small cost, then sends the papers everywhere, and there is no doubt that he has done much to turn public sentiment against us. If it was known that the C. P. did not control the S. P. I think we could beat him all the time, although

he has about the same advantages over us in Washington that we have over him in Sac. [Sacramento]. If he wants some committeeman away he gets some fellow (his next friend) to ask him to take a ride to New York or anywhere else, of course on a free pass, and away they go together. Then Scott has always been very liberal in such matters. Scott got a large number of that drunken, worthless dog Piper's speeches printed and sent them broadcast over the country. He has flooded Texas with them. The Sac. *Record-Union* hurts us very much by abusing our best friends. There was a no. [number] of that paper came over some little time since that abused Conkling, Stewart and some other of our friends, with Bristow's name up for president. * * * If I owned the paper I would control it or burn it. * * *

Roscoe Conkling was a Senator from New York. His name occurs in the Huntington accounts. William M. Stewart was a Senator from Nevada. Bristow was a prominent candidate for the Presidency; at the time this letter was written, he was Secretary of the Treasury. The Sacramento *Record-Union* was at that time a railroad organ.

New York, May 2, 1876.

Herewith I send copy of telegraphic dispatch that came over yesterday. Who is this Webster? Is it not possible to control the agent of the Associated Press in San Francisco? The matters that hurt the C. P. and S. P. most here are the dispatches that come from S. F. [San Francisco]. Scott has a wonderful power over the press, which I suppose he has got by giving them free passes for many years over his roads. * * *

New York, May 12, 1876.

* * * I sent Hopkins an article yesterday cut from the *Commercial Advertiser;* today I met one of the editors, Norcutt; he told me Scott paid for having it published; that he would not have let it gone into the papers if it had been left to him, etc. * * *

New York, June 7, 1876.

* * * I hope Luttrell will be sent back to Congress. It would be a misfortune if he were not. Wigginton has not always

been right, but he is a good fellow and is growing every day. Page is always right, and it would be a misfortune to California not to have him in Congress. Piper is a damned hog and should not come back. It is shame enough for a great commercial city like S. F. to send a scavenger like him to Congress once. * * *

NEW YORK, June 12, 1876.

* * * I notice what you say of Wigginton, Luttrell and Piper. The latter should be defeated at almost any cost.

Peter D. Wigginton, of Merced, and Horace F. Page, of Placerville, were Representatives from California in the Forty-fifth Congress.

June 24, 1876.

Parrott (Gorham) is, or was, writing a brief on fares and freight to influence, I was told, one of the judges of the Supreme Court. They are sure to do their worst but my better judgment tells me to take the scamps into camp.

NEW YORK, March 7, 1877.

* * * I notice you are looking after the state railroad commissioners. I think it is time. * * * I stayed on in Washington two days to fix up R. R. Committee in the Senate. Scott was there working for the same thing, but I beat him for once, certain, as the committee is just as we want it, which is a very important thing for us. * * *

March 14, 1877.

* * * After the Senate R. R. Committee was made up Scott went to Washington in a special train, and got one of our men off and one of his on, but they did not give him the com. Gordon of Georgia, was taken off, and Bogy of Missouri, put on.

John B. Gordon, of Atlanta, was a Senator from Georgia; Lewis V. Bogy, of St. Louis, was a Senator from Missouri in the Forty-fifth Congress.

I gave today a letter to Senator Conover of Florida. He is a good fellow enough and our friend after he is convinced we are right.

Simon P. Conover was a Senator from Florida in the Forty-fifth Congress.

April 3, 1877.

* * * We should be very careful to get a U. S. Senator from Cal. that will be disposed to use us fairly and then have the power to help us. Sargent, I think, will be friendly, and there is no man in the Senate that can push a measure farther than he. * * *

Aaron A. Sargent was a Senator from California in the Forty-fifth Congress.

New York, April 20, 1877.

I wrote Crocker on the 12th inst., in relation to Jones' Los Angeles road. A few days after I saw Jones I met Gould. He told me Keene had bought it [meaning the railroad at Los Angeles owned by Senator Jones of Nevada]. Of course, I said I was glad to hear it, as we did not want the road at any price; that I made Jones an offer for it because we wanted him to help us with our (C. P. and U. P.) sinking fund bill in Congress, and was very glad it [the railroad] had got out of the way, and that I saw nothing now to prevent friendly relations between Jones and ourselves, etc.

On the Sunday following A. A. Selover came to my house and said he came from Gould and Keene and that in the panic or break in Panama a few days before Jones would have broken if G. and K. had not come to help him out, and to do it they had to take Jones' railroad, etc., and he asked me, after some beating about, if we wanted the road at $480,000. I told him that we did not want it at all but that we would take it so as to work in harmony with Jones, and that I had made him an offer as I wrote Crocker, and my impression was our people would do that now, but I was quite sure we would rather G. and K. would keep the road, if by that Jones could be made our friend, etc. What do you think of all this? I am rather disposed to think G. and K. have not bought the road but hold it as collateral.

New York, May 7, 1877.

* * * I notice what you say of Conover, the Florida Senator. He is a clever fellow but don't go any money on him. * * * The $70,000 that I let Jones have are tied up for ten years. I think we can make more than the interest on the amount paid for Jones' road out of our other roads by not

running the Jones road at all; and Jones is very good-natured now and we need his help in Congress very much; and I have no doubt we shall have it. We must have friends in Congress from the West coast, as it is very important, I think, that we kill the open highway, and get a fair sinking fund bill by which we can get time beyond the maturity of the bonds that the government loaned us to pay the indebtedness; and I think if any Republican is elected in Sargent's place, he (Sargent) is worth to us, if he comes back as our friend, as much as any six new men, and he should be returned.

NEW YORK, May 15, 1877.

Yours of the 7th inst. is received. I am glad you are paying some attention to General Taylor and Mr. Kasson. Taylor can do us much good in the south. I think, by the way, he would like to get some position with us in Cal. Mr. Kasson has always been our friend in Congress and as he is a very able man, has been able to do us much good and he has never ———[1] us one dollar. I think I have written you before about Senator Conover. He may want to borrow some money, but we are so short this summer I do not see how we can let him have any in Cal.

I have just given Senator Ingalls, of Kansas, a letter to you. He is a good fellow and can do us much good. * * * Senator Morton is coming over; also his brother-in-law, Burbank. They are good fellows, but B. means business, not here but in W.

Scott is working everywhere for his open highway, but I think we can beat him; but it will cost money.

The Congressional Directory gives the name of Oliver P. Morton as a Senator from Indiana.

June 1, 1877.

* * * There has been quite a number of Senators and M. C. in the office here in the last few days; they all say Scott is making his greatest effort on his Texas and Pacific (open highway)

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1 See Pacific Railroad Commission Report, p. 3851. In the original the word left blank here is said to look like "cost." Some authorities agreed to accept it as "lost," which although it seems to make no sense had doubtless a more dulcet sound in some ears. John A. Kasson, of Des Moines, was a Representative from Iowa and later United States Minister to Austria. John J. Ingalls, of Atchison, was a Senator from Kansas.

and most of them think he will pass it; this man Hayes, most people say, is for it to conciliate the South; he may be, but I hardly believe he is; but I have no doubt he is for many things he should not be for. * * *

The reference is to President Hayes.

NEW YORK, September 10, 1877.

FRIEND COLTON: * * * As to Colonel Hyde writing a report about the harbor of San Diego. I would like such a report as he could write, and if he would write one to suit for $250 I would give it, and if he would not we shall have to go without it. * * *

(Letter of March 4, 1878, suggested that army officers be let in on the Oakland water front job.)

NEW YORK, October 5, 1877.

Yours, No. 15, is received. I notice your remarks on our matter in Cal. I have no doubt there is many things to annoy you. The dispatches about crossing the Colorado come over very well. I think Gould has had as much to do with stopping us on the bridge as Scott has, although I have had no reason for so thinking up to this morning (see clip from *Tribune*), except Jim Wilson, of Iowa, is their man, and has much influence with McCrary.

Sec. of War was in Washington when the first order went out to stop work on the bridge, and Gould came in twice, and Dillon once, to tell me that the Sec. of the Interior had his war paint on and was to attack us in his message, etc., etc. I thought at the time they were trying to cover up something, and rather supposed it was to check us on S. P. * * *

George W. McCrary, of Iowa, was Secretary of War in the administration of Hayes. Carl Schurz was Secretary of the Interior in the same administration. The bridge was at a government reservation. McCrary and Schurz stopped it. James Wilson, of Traer, was a Representative from Iowa in the Forty-fourth Congress. According to "Who's Who" the home of James

Wilson, who was Secretary of Agriculture in the administrations of Presidents McKinley, Roosevelt and Taft, was also at Traer, Tama County, Iowa, and he was in Congress from 1873 to 1877 and from 1883 to 1885.

NEW YORK, October 20, 1877.

* * * I think Safford had better be in Washington at the commencement of the regular session, to get Congress to confirm the Acts of Arizona.

I saw Axtell, Governor of New Mexico, and he said he thought if we would send to him such a bill as we wanted to have passed into a law, he could get it passed with very little or no money; when if we sent a man there they would stick him for large amounts. * * *

October 30, 1877.

* * * * The committees are made up for the Forty-fifth Congress. I think the R. R. Com. is right, but the Com. on Territories I do not like. A different one was promised me. * * * I think there never was so many strikers in Washington before.

November 9, 1877.

* * * * I do not think we can get any legislation this session for extension of land grants or for changing line of road unless we pay more for it than it is worth. * * * Some parties are making great effort to pass a bill through Congress that will compel the U. P. and C. P. to pay large sums into a sinking fund, and I have some fears that such a bill may pass. Jim Keene and others of Jay Gould's enemies are in it and will pay money to pass.

NEW YORK, November 15, 1877.

* * * * If we are not hurt this session it will be because we pay much money to prevent it, and you know how hard it is to get it to pay for such purposes. * * * I think Congress will try very hard to pass some kind of bill to make us commence paying on what we owe the government. * * * Every year the fight grows more and more expensive. * * *

New York, November 22, 1877.

* * * Matters never looked worse in Washington than they do at this time. It seems as though all the strikers in the world were there. I send with this copy of one of their letters I received yesterday, all of the some tenor. The one I send is from ex-Senator Pomeroy.

The inclosure is a letter of advice from Pomeroy to Huntington, outlining a scheme by which Congress could be controlled for the railroad, and closing with fulsome expressions. For Pomeroy, see Mark Twain's "Gilded Age;" also Mr. Huntington's accounts for 1876. Pomeroy had been a Senator from Kansas in the Forty-third Congress.

November 24, 1877.

* * * I notice what you write of the Santa Monica road. I am satisfied with that trade and when you write pay Jones no part of the $25,000, because there is an unsettled account of, say, $6,000, I think you forget his position. I have paid him the $25,000 as he told me he needed it very much. Jones can do us much good and says he will.

December 5, 1877.

* * * I have just received telegram from Washington that Matthews and Windom have been put on Senate R. R. Committee in place of Howe and Ferry. This looks as though the Texas and P. had control of the Senate as far as appointing coms. are concerned. I am not happy today.

Stanley Matthews, of Cincinnati, was a Senator from Ohio; William Windom, of Winona, was a Senator from Minnesota; Timothy O. Howe, of Green Bay, was a Senator from Wisconsin; Thomas W. Ferry, of Grand Haven, was a Senator from Michigan.

December 17, 1877.

* * * The Texas and P. Company have been fighting us for years, but have had but little money, but have used passes and promises largely; but the latter, as they say, is about played out, and some little time ago they joined teams, as I am told, with the North[ern] P[acific]. They had a little money to use

as they had no mortgage or floating debt as I am told. They have made a little money on this end of their road and I think are using it. Jay Gould went to Washington about two weeks since and I know saw Mitchell, Senator from Oregon, since which time money has been used very freely in Washington and some parties have been hard at work at the T. & P.—N. P., that never work except for ready cash and Senator Mitchell is not for us as he was, although he says he is, but I know he is not. Gould has large amounts of cash and he pays it without stint to carry his points. * * *

John H. Mitchell, of Portland, was a Senator from Oregon.

January 12, 1878.

* * * Matters do not look well in Washington, but I think we shall not be much hurt, although the boys are very hungry and it will cost considerably to be saved.

January 22, 1878.

* * * The *World* again published today that the C. P. and S. P. [Central Pacific and Southern Pacific] owe fourteen millions floating debt, and it hurts us very much, and I don't see how we can carry our floating debt here unless this debt can in some way be transferred; that is the larger portion of it. The *World* is controlled by Tom Scott. A few months ago I could have had it in our interest, by paying its losses, or in other words, paying the bills that they [The *World*] could not pay, which would be from $2,000 to $5,000 a month. I did not think it wise to do it. * * *

February 23, 1878.

* * * The Sub. Com. of the R. R. Com. of the House have agreed to report Scott's T. and P. Bills through to San Diego and I am disposed to think the full Com. will report it to the House. It can be stopped but I doubt whether it would be worth the cost. * * * Scott no doubt will promise all the, say $40,-000,000, that the act would give him. * * *

New York, May 3, 1878.

* * * The Texas and Pacific folks are working hard on their bill, and say they are sure to pass it, but I do not believe

it. They offered one M. C. one thousand dollars cash down, five thousand when the bill passed, and ten thousand of the bonds when they got them, if he would vote for the bill.

New York, June 30, 1878.

I think your letter to McFarland was good. * * * I think in all the world's history never before was such a wild set of demagogues honored with the name of Congress. We have been hurt some but some of the worst bills have been defeated, but we cannot stand many such Congresses.

New York, September 30, 1878.

* * * I think you are right about Field not sitting in the Gallatin suit. * * *

Albert Gallatin had been a member of the firm of Huntington & Hopkins at Sacramento. He brought suit to prevent the Central Pacific from setting aside its sinking fund. Justice Stephen J. Field was of the Supreme Court of the United States. For many years he was actively supported in some quarters for the Democratic nomination for the presidency. The California State Democratic convention of 1884, held at Stockton, considered charges against Justice Field based upon his decisions in cases wherein the Southern Pacific Railroad was interested. As a result of these charges, the convention formally read Justice Field out of the Democratic party.

In close connection with these letters should be read the table of Southern Pacific expenditures at Washington that follows. These figures were revealed by the Pacific Railroad Commission when it secured possession of the railroad company's books. They indicate sums spent without vouchers and charged only to "expenses." The "I. E. Gates" whose name appears so often among them was Mr. Huntington's private secretary.

SOUTHERN PACIFIC GENEROSITY AT WASHINGTON

1872.	
Jan. 13. R. Franchot....$	33.00
Jan. 18. R. Franchot....	13,200.00
Mch. 11. C. P. Huntington	1,000.00
Mch. 15. R. Franchot...	1,000.00
Mch. 23. C. P. Huntington	500.00
Apr. 26. C. P. Huntington	500.00
May 11. C. P. Huntington	500.00
May 17. C. P. Huntington	1,000.00
May 17. R. Franchot...	5,000.00
June 5. R. Franchot....	5,000.00
July 31. C. P. Huntington	500.00
Aug. 24. C. P. Huntington	500.00
Sept. 24. R. Franchot...	19,295.50
Oct. 2. I. E. Gates.....	5,000.00
Nov. 1. I. E. Gates.....	500.00
Nov. 15. C. P. Huntington	1,000.00
Nov. 21. I. E. Gates....	500.00
Nov. 29. I. E. Gates....	4,000.00
Dec. 28. I. E. Gates....	200.00
Dec. 31. "Services in 1872"	13,233.33
Total ....$	72,461.83
1874.	
Jan. 13. R. Franchot....$	500.00
Jan. 16. I. E. Gates....	200.00
Mch. 14. Fisk & Hatch.	12,139.94
May 14. C. P. Huntington	500.00
June 15. Fisk & Hatch.	1,910.00
June 22. C. P. Huntington	20,000.00
June 27. R. Franchot....	3,700.00
July 9. R. Franchot.....	150.00
July 10. I. E. Gates....	200.00
July 11. I. E. Gates....	200.00
Sept. 11. C. P. Huntington	5,000.00
Oct. 16. I. E. Gates....	281.00
Oct. 23. I. E. Gates....	200.00
Nov. Gen. Dwyer, U. S. Commissioner	1,000.00
Dec. 2. "W. A. W." paid by C. P. Huntington...	4,863.48
Dec. 29. C. P. Huntington	2,000.00
Total ....$	52,844.42
1876.	
Jan. 4. N. T. Smith, for amount paid H. Brown.$	5,000.00
Jan. 24. C. P. Huntington	2,500.00
Feb. 26. C. P. Huntington	5,000.00
Mch. 9. I. E. Gates.....	2,000.00
Mch. 12. Jas. H. Storrs.	1,125.35
Mch. 24. I. E. Gates....	500.00
Mch. 29. I. E. Gates....	5,000.00
Apr. 23. C. H. Sherrill..	15,000.00
May 9. C. H. Sherrill..	300.00
May 24. I. E. Gates....	5,000.00
June 2. C. H. Sherrill...	2,000.00
June 4. C. H. Sherrill...	1,000.00
June 30. C. P. Huntington	5,000.00
July 2. I. E. Gates.....	200.00
Sept. 5. C. P. Huntington	1,000.00
Sept. 7. "Legal expenses"	10,440.00
Sept. 15. C. P. Huntington	1,000.00
Sept. 20. C. P. Huntington	3,000.00
Oct. 5. C. P. Huntington	1,500.00
Oct. 15. C. P. Hunttington	2,000.00
Oct. 24. C. P. Huntington	1,000.00
Oct. 26. H. Hopkins. order	5,000.00
Nov. 1. Leland Stanford	83,418.08
Nov. 9. I. E. Gates.....	5,000.00
Nov. 16. I. E. Gates....	5,000.00
Dec. 8. I. E. Gates.....	2,500.00
Dec. 18. I. E. Gates....	5,000.00
Dec. 19. I. E. Gates....	1,000.00
Dec. 26. C. P. Huntington	2,000.00
Dec. 28. Leland Stanford	52,500.00
Total ....$	279,483.43
1878.	
Jan. 11. C. P. Huntington.$	1,150.00
Jan. 28. I. E. Gates.....	1,600.00
Feb. 14. L. Stanford....	1,000.00
Feb. 20. C. P. Huntington	2,500.00
Mch. 18. C. P. Huntington	5,500.00
Mch. 19. C. P. Huntington	4,500.00
Apr. 12. I. E. Gates....	1,750.00
Apr. 18. I. E. Gates....	200.00
May 4. James H. Storrs.	1,000.00
May 20. I. E. Gates....	5,000.00
May 25. I. E. Gates....	1,500.00
May 27. I. E. Gates....	5,000.00
June 7. L. Stanford....	13,000.00
June 22. I. E. Gates....	2,000.00
June 25. I. E. Gates....	500.00
June 28. L. Stanford....	111,431.25
June 29. Joseph H. Bell.	38,500.00
June 29. C. P. Huntington	99,167.20

Mch. 31.	I. E. Gates....	5,000.00
Apr. 1.	C. P. Huntington	5,000.00
Apr. 6.	C. P. Huntington	5,000.00
Apr. 19.	"Attorney" fee.	5,000.00
May 4.	Anna Franchot..	25,000.00
May 12.	I. E. Gates....	5,000.00
May 15.	I. E. Gates....	5,000.00
May 19.	I. E. Gates....	1,000.00
June 2.	S. C. Pomeroy	1,000.00
June 3.	I. E. Gates....	5,000.00
June 19.	I. E. Gates....	10,000.00
June —.	New York newspapers, Tribune, Times, World and Bulletin....	3,381.45
July 19.	C. H. Sherrill..	3,000.00
July 26.	I. E. Gates....	10,000.00
July 12.	S. L. H. Barlow	2,000.00
Aug. 18.	R. B. Mitchell.	1,500.00
Aug. 21.	S. W. Kellogg.	600.00
Sept. 12.	Lyman Trumball	10,000.00
Sept. —.	R. Franchot...	15,698.92
Oct. 4.	C. P. Huntington	500.00
Oct. 5.	C. P. Huntington	2,500.00
Oct. 14.	C. P. Huntington	6,300.00
Oct. 17.	I. E. Gates....	5,000.00
Oct. 21.	I. E. Gates....	5,000.00
Oct. 23.	I. E. Gates....	1,000.00
Oct. 26.	I. E. Gates....	700.00
Oct. 30.	I. E. Gates....	1,000.00
Oct. 10.	Legal expenses	2,500.00
Nov. 3.	D. D. Colton...	8,000.00
Nov. 8.	D. D. Colton...	8,000.00
Nov. 13.	I. E. Gates....	1,000.00
Nov. 14.	I. E. Gates....	1,000.00
Nov. 15.	I. E. Gates....	1,000.00
Nov. 16.	C. P. Huntington	5,000.00
Dec. 1.	I. E. Gates.....	3,000.00
Dec. 7.	I. E. Gates.....	1,000.00
	Total	$178,180.37
1877.		
Jan. 3.	"Legal" expenses.	$ 10,000.00
Jan. 8.	I. E. Gates......	5,000.00
Jan. 15.	"Legal" expenses	5,000.00
Feb. 6.	Western Development Company.......	26,000.00
Feb. 19.	I. E. Gates....	10,000.00
Aug. 2.	A. J. Howell....	200.00
Aug. 3.	James A. George	300.00
Aug. 15.	C. P. Huntington	42,855.06
Aug. 15.	New York Items	1,166.66
Aug. 19.	T. M. Norwood	287.95
Aug. 29.	John Boyd.....	200.00
Sept. 3.	Leland Stanford.	12,000.00
Sept. 3.	A. J. Howell....	200.00
Sept. 3.	J. A. George...	150.00
Sept. 4.	T. M. Norwood.	1,000.00
Sept. 4.	S. T. Gage.....	3,000.00
Sept. 14.	I. E. Gates....	1,500.00
Sept. 14.	O. M. Bradford	75.00
Sept. 23.	D. D. Colton..	1,200.00
Sept. 23.	J. A. George..	150.00
Sept. 27.	I. E. Gates....	5,000.00
Sept. 27.	J. G. Prentiss..	60.00
Sept. 28.	I. E. Gates....	2,000.00
Oct. 1.	D. D. Colton....	3,460.00
Oct. 1.	John Boyd......	200.00
Oct. 1.	John Boyd......	204.00
Oct. 1.	J. A. Howell....	200.00
Oct. 1.	J. A. George....	250.00
Oct. 3.	I. E. Gates.....	5,000.00
Oct. 4.	D. D. Colton....	3,290.00
Oct. 5.	I. E. Gates......	2,000.00
Oct. 7.	I. E. Gates....	1,000.00
Oct. 7.	J. E. Forney....	300.00
Oct. 10.	I. E. Gates....	2,000.00
Oct. 19.	I. E. Gates....	6,000.00
Oct. 22.	I. E. Gates....	3,500.00
Oct. 24.	C. P. Huntington	3,000.00
Oct. 26.	I. E. Gates....	10,000.00
Oct. 28.	I. E. Gates....	10,000.00
Nov. 2.	John Boyd.....	224.00
Nov. 2	T. M. Norwood.	1,083.98
Nov. 11.	I. E. Gates....	500.00
Nov. 13.	I. E. Gates....	1,500.00
Nov. 21.	C. H. Sherrill.	1,000.00
Nov. 21	O. M. Bradford.	75.00
Nov. 22.	J. A. George...	100.00
Nov. 27.	I. E. Gates....	500.00
Nov. 27.	T. M. Norwood	500.00
Dec. 2.	John Boyd.....	200.00
Dec. 5.	I. E. Gates....	10,000.00
Dec. 9.	I. E. Gates....	2,800.00
Dec. 17.	I. E. Gates...	10,500.00
Dec. 23.	John H. Flagg.	100.00
Dec. 26.	I. E. Gates....	500.00
	Total	$447,630 10

All of which, more than $5,000,000, being money that was then due from the railroad company to the government and people of the United States, whose representatives were thus induced to help the debtor company to avoid the payment of that debt.

CHAPTER VII

THE SOUTHERN PACIFIC—(*Continued*)

E. One Item in the Bill.

"The railroads of today ought not to be judged by the past."

So say the railroad attorneys, presidents, and champions. So dutifully echoes that part of the press owned or controlled by the railroad Interests.

No doubt all of us would be glad to accept and to follow the injunction if only we could; but to separate the railroad of today from its past is like separating the living tree from its root.

The railroad company of today is an accretion of railroad companies of the past; the railroad management of today is an inheritance from the railroad management of the past; the railroad capitalization of today has been built upon years of devious policy; the railroad rates of today reflect fifty years of scheming and looting.

If the railroad companies could become agencies of transportation and not of finance; if they would cease to build new fictitious capital on the fictitious capital of previous years; if they could avoid as a basis of rates the necessity of getting interest and dividends on this fictitious capital, we could possibly afford to forget the past and its records.

We must look back to the past because we are paying for the past. Daily the railroad past comes to us

and collects its extortionate and unreasonable revenues.

The manner of this collection we shall now, if you please, proceed to see, and also to see how utterly futile and absurd are, and must be, all attempts to deal with the American railroad problem by doctoring symptoms with legal remedies, even when these are most justly grounded and ably enforced.

You remember, no doubt, the $27,500,000 of subsidy bonds that the United States government issued and bestowed upon Messrs. Stanford, Huntington, Hopkins, and Crocker, to facilitate the building of the Central Pacific.

These bonds were to fall due thirty years after the completion of the road.

The road was completed in 1869-70. The bonds became due in 1900.

Originally, the government stipulated that the railroad company should pay the semi-annual interest on these bonds, and the principal when due.

The company refused to pay the semi-annual interest and got from the Supreme Court a decision that it need not pay this interest until it paid the principal. This obliged the United States to advance the semi-annual interest from the treasury, which amount was charged against the company.

In 1887 the Pacific Railroad Commission was appointed to investigate the condition of the company and discover what use it had made of its resources and income, a reasonable inquiry in view of its repeated statements that it was too poor to pay the interest it owed, and would be too poor to pay the principal.

After listening to much astounding testimony of a

nature extremely damaging to the company, the commission made two reports. The majority dealt lightly with the offenses that had been revealed. Governor Pattison, the minority member, returned a stinging indictment of Messrs. Stanford, Huntington, Hopkins, and Crocker, and urged the government to forfeit the company's charter for fraud and dishonesty.

Nothing was done on either report.

In 1896, the time for payment being close at hand, the debt to the government was apparently more than $60,000,000, and the company's attorneys and representatives made no secret of its intention to default on this debt.

Public sentiment demanded that some arrangement should be made. Mr. Huntington was still hovering about Congress with his agents and lobbyists. He prepared a bill that provided for the refunding of the debt into bonds bearing two per cent interest and payable at a period estimated at eighty years from date.

This bill was slated for passage by the Republican machine to which Mr, Huntington had always contributed liberally.

Everybody knew that the bill was to be jammed through and Mr. Huntington was greatly pleased with the prospect.

He had reason to be pleased. The bill settled all differences with the government, and put off the day of payment so far that it probably would never come.

The reason for his confidence in the obedience of Congress to his desires might be surmised by any one that was familiar with his letters to "Friend Colton." But there was no need of surmise. The facts were plain enough. The Washington Correspondent of the

Chicago Evening Post on April 22, 1896, telegraphed this to his journal:

"The most pitiable and at the same time the most disgusting spectacle that now offends the national capital is the Huntington lobby. The list of paid lobbyists and attorneys now numbers twenty-eight, and their brazen attempts to influence Congress to pass the Pacific Railroad Refunding Bill have become the disgrace of the session."

Mr. Huntington's easy confidence in these measures and his satisfaction with the outlook were of short life. Presently they were upset by two men.

At the request of Mr. William Randolph Hearst, Mr. Ambrose Bierce went to Washington, and every day for one year he wrote an article exposing the rotten features of Mr. Huntington's bill.

These articles were extraordinary examples of invective and bitter sarcasm. They were addressed to the dishonest nature of the bill and to the real reasons why the machine had slated it for passage. When Mr. Bierce began his campaign, few persons imagined that the bill could be stopped.

After a time the skill and steady persistence of the attack began to draw wide attention. With six months of incessant firing, Mr. Bierce had the railroad forces frightened and wavering; and before the end of the year, he had them whipped. The bill was withdrawn and killed, and in 1898 Congress adopted an amendment to the general deficiency bill, providing for the collection of the Pacific Railroad subsidy debts, principal and interest.

This may be held to be as wonderful a victory as was ever achieved by one man's pen, and, also, one of the most remarkable tributes to the power of persist-

ent publicity. What it meant for California may be judged from the fact that when news was received of the death of Mr. Huntington's bill the governor proclaimed a public holiday, and in the name of the state sent a telegram of thanks to Mr. Hearst.

But it was a victory destined to have far more memorable results than these. At once the railroad company abondoned all hope of cheating the government, and resorted to a vast and difficult feat of financiering that it might provide for the payment of the accumulated debt. For months the eyes of the financial world were fixed wonderingly upon this slack wire adventure, which was regarded in some quarters as fraught with peril, in others as "a clever and ingenious contrivance," and on all sides as a new chapter in high finance.

The substance of it was this:

The amount due to the government, less deductions, was $58,800,000. For this the company gave twenty notes of equal amounts, payable semi-annually over a period of ten years, bearing interest at three per cent and secured by an equal amount of bonds.

That is to say, of new bonds, issued by the company in addition to the bonds it was already carrying on the basis of rates charged to the public for passenger and freight transportation. In effect, therefore, new burdens for the public to bear.

This is the point of the matter and will bear thoughtful study.

The unpaid interest on the old government advance had accumulated and amounted now to $30,700,000—due to the government. Because, instead of paying it to the government as it became due the Big Four had wrongfully paid the money to themselves in the shape

of dividends on the capital stock of the railroad, which they held.

They now transformed this debt of $30,700,000 into another that we, the public, must support and pay.

The new bonds were issued according to this beautiful device, and the capitalization of the company increased to that extent.

There was next prepared a new issue of Southern Pacific stock and a new issue of four per cent collateral bonds. Next an assessment of $2 a share was ordered on the old Central Pacific common.

But to offset this assessment, the new collateral bonds were presented free to holders of this stock to the amount of $16,819,000.

Then these same stockholders of the old Central Pacific received, share for share, $67,275,500 of the new Southern Pacific stock on which six per cent dividends were to be paid—a fine, dividend-paying stock exchanged for a stock that for years had been inert and unprofitable.

Next a new Central Pacific Railway Company was organized in Utah to succeed the old, and the original part of the Millionaire Mill passed from public view forever. Yet only from public view. Screened behind these manoevers it continued to work and continues.

The $16,819,000 of collateral bonds and the $67,275,-500 of new stock made $84,094,500 of securities which must be provided for from the earnings. Nominally, the total increase in the capitalization was $47,579,000, being the capitalized interest on the government debt, and the collateral bonds; but the total paper capitalization was now $114,794,500, and all of it became inter-

est or dividend bearing, whereas much of it had previously been of small value.

A total of $114,794,500, on which interest must be paid.

We are paying it.

Thus:

Annual dividends on the stock, 6 per cent	$4,036,530
Collateral bonds, $16,819,000, at 4 per cent	672,760
Capitalized interest on government subsidy	1,200,000
Total annual charge on us	$5,909,290

So far (1922) we have been paying this twenty-two years. Our payments upon it have amounted to $129,000,000.

Then this is the way this particular account stands to date:

Debt of the railroad to the government	$58,800,000
We have paid because of the refunding of that debt.	129,000,000
We are out so far	$70,200,000

In eight more years, thirty years after the making of this deal, we shall have paid about $180,000,000, which is three times the amount of the debt. We shall then be losers to the amount of $120,000,000.

It would have been enormously cheaper to give Mr. Huntington a cancellation of the debt.

Cheaper in freight rates; cheaper, therefore, in the daily living expenses of the people.

But since this debt and the annual charges that we must pay on it are directly and solely the results of the operations (before described) of Messrs. Stanford, Huntington, Hopkins, and Crocker, and of nothing

else, kindly observe the impudence of the men that urge us to forget railroad history.

We might very well answer that we will forget railroad history when the railroads cease to make us pay for that history.

But the floating of the gigantic refunding scheme had another result besides the levying of additional tribute upon us. Mr. Stanford was dead, Mr. Hopkins was dead, Mr. Crocker was dead. Mr. Huntington, who had been steering and directing the new operations died (before they were completed) in August, 1900.

Some confusion followed in the public mind, with many stories of sales, purchases, and reorganizations. When this mist cleared away, men saw that the Great Millionaire Mill had passed into a new ownership.

For years the many properties of the original Big Four of Sacramento had been undergoing consolidation. For all the millions upon millions of fictitious stock issued and gathered to themselves as they had gone along, for all the fictitious capitalization in all the long list of subsidiary lines and branches, being company within company until the human mind wearied and failed to follow the ramifications—for all this there had been issued stock in the Southern Pacific Company, of Kentucky, the final consolidated concern.

Great blocks of this were now acquired from the heirs of the Big Four and through the exigencies of the refunding operations, and when the situation finally cleared there appeared as the real ownerrs of the old Central Pacific, the Southern Pacific, the unknowable convolutions thereof, the old Pacific Mail, the Morgan steamships, the Union Pacific, the whole be-

wildering aggregation with all its load of fictitious capital, buttressed with lordly gifts from the public domain, rich with spoils, incomparably the grandest source of riches ever known in human history—of the whole incalculable thing, the real owners appeared as the powerful Standard Oil interests, with the late E. H. Harriman as their representative.

In the end it was the Standard Oil group that had financed the "clever and ingenious" refunding deal and had thereby seized the control of the Mill, and it is to the Standard Oil group that we pay our $5,900,-000 of annual tribute to that deal, and all the other tributes on all the other deals back to the days of the Contract and Finance Company, John Miller, and the books at the bottom of the river Seine.

Is not that interesting?

Yes, we should love to forget the past if the past would only let us. But when, on $200,000,000 of fictitious stock created by the Contract and Finance Company and its successors, we frunish such dividends that the price of that stock goes up to 137, the manner in which we are to win forgetfulness of the past ought to be very carefully explained to us.

To what extent we have already furnished this and other tribute may be gathered from a table with which we may well conclude our reflections on this edifying subject. It does not show the total production of the Great Millionaire Mill; probably no human mind could trace, formulate, and accurately state what that production has been. It shows only a part of the wealth that, without return of any kind, we have freely bestowed upon this unparalleled institution.

CENTRAL PACIFIC—

Government land grant, minimum	$ 30,000,000
Unearned dividends on stock	34,000,000
Capitalized interest on subsidy bonds	30,700,000
Common stock (representing no investment)	67,275,500
Bonus on bonds	16,819,000
	$178,794,500

SOUTHERN PACIFIC—

Government land grant, minimum	$ 40,000,000
Donations by California councils	1,002,000
Mission Bay, donated by the state, estimated value at the time	9,500,000
Capital stock (representing no investment)	160,000,000
Dividends thereon	30,400,000
	$240,902,000

SOUTHERN PACIFIC COMPANY OF KENTUCKY—

Government land grant acquired with Morgan purchase	$ 13,000,000
Surplus capitalized (see report 1903)	100,081,022
Stock acquired under early leases	76,000,000
	$189,081,022
Grand Total	$608,777,522

Of this sum only an inconsiderable fraction can be held to represent any kind of investment, and the greater part is to this day drawing interests and dividends from the consuming public.

Reflected in the cost of living.

Used as the basis of rates and for the adjustment of wages—a capitalization that has no foundation except on paper.

CHAPTTER VIII

THE ROCK ISLAND SYSTEM

This is the story of a pyramid.

A pyramid is a beautiful thing.

The lines are pleasing to the eye. They convey the ideas of symmetry and proportion.

When a pyramid stands upon its base, as it ought always to stand, it conveys also the idea of strength as well as of a chaste and simple beauty.

The pyramids of Egypt, for instance. For thirty centuries and more they have defied time and change. Each stands upon its base, with its apex in the air.

But the pyramid of Cheops, in Egypt, now, standing on its apex with its base in the air—that would not suggest strength, nor beauty, nor proportion, would it? No, nor permanence, nor endurance, nor safety, nor wisdom in persons that camped under its shadow.

The pyramid of Cheops in Egypt is a very large and famous pyramid. It stands upon its base. People travel from all parts of the world to see it.

We have lately had in the United States a much larger pyramid than the pyramid of Cheops—very much larger. Also, much more wonderful.

But it did not stand upon its base. It stood upon its apex with its base in the air.

Yes, that was one very strange fact about this wonderful pyramid. It stood with its great base in the air and its little head on the ground. There were many other pyramids in the United States, far more than in

Egypt. But this was the greatest of all and the most wonderful and the most astounding.

Many years had been required to build this marvelous pyramid and the greatest skill had been used to keep it from toppling over. All the time it was rising higher and higher, and every year the prophets and wise men said, "Now the old thing will surely fall with a loud crash." But month after month it continued to stand up while people gazed upon it open mouthed and wondered if all the laws of nature had been upset and the days of the genii had returned. Until one fine morning there was a loud roar and—but we had better wait until we come to that.

This pyramid of ours had properties of magic not possessed by any of the pyramids of Egypt. It made its builders rich and it helped to make other persons poor. All the time, day and night, it had that effect. Next, the builders did not really with their own fair hands build anything of stone or brick, and that was still more remarkable. They just made marks on a piece of paper and labor came and put the next course on the pyramid and we paid for it.

Next, it was hollow, all hollow, however solid it might have looked at a distance, and the gentlemen that owned it used it like a gigantic hopper. All of us had to throw money into that hopper and it ran down to the bottom and there stood the gentlemen with sacks and barrels and took it away as fast as it accumulated.

Wonderful pyramid! Surely the history of it ought to be studied with careful attention by all of us who have thus to pay for it.

The first stone in it was laid seventy-five years ago,

when the Illinois legislature chartered the Rock Island & LaSalle Railroad Company, changed in 1851 to the Chicago & Rock Island.

July 10, 1854, the line was completed from Chicago to the Mississippi river at Rock Island and at once began to pay large, handsome dividends.

About the same time some gentlemen were mapping a railroad across the state of Iowa from Davenport, which was opposite Rock Island, to Council Bluffs on the Missouri, 317 miles. Mapping much and building little. This enterprise was called the Mississippi & Missouri.

By July 1, 1856, they had built from Davenport to Iowa City, 54 miles, at a cost of $14,925 a mile, and the road was earning money at the rate of $5,500 a mile.

But on May 25, 1856, Congress was induced to give to the young state of Iowa, "to aid the construction of railroads," 4,969,942 acres of the public domain (that is the land belonging to the people of the United States) and of this generous donation the gentlemen that were mapping and building the Mississippi & Missouri got a good slice.

They induced the legislature to bestow upon them every alternate square mile of land in three miles on each side of their projected line.

But 54 miles had already been built. Did they get aid for that?

They certainly did. They got one-half of the land in a strip six miles wide from the Mississippi to the Missouri, the most fertile soil in America, and where land so bestowed happened to be occupied they got other and often better land "in lieu thereof"—a swindle of which we shall find other examples.

To aid in the construction of a railroad, a part of which was already constructed.

It didn't aid much. Let us look at this. When we go back now to any of these rotten chapters in our larcenous railroad history the custom is to defend the thefts of the public domain on the ground that they enabled us to have railroads.

Not stopping to point out the significant fact that other new countries have had railroads built without looting the public domain, the simple truth is that there is not one needed railroad in the United States built with loot of this kind that would not have been built as soon without it.

For instance, in this case the vast area of land grafted by these adventurers did not hasten the building of this road but greatly retarded it.

So soon as they got their land grant all construction stopped on the main line.

Instead of proceeding with this work the company issued mortgage after mortgage upon its property and with the funds thus secured it built its southwestern branch through more populous and more profitable territory. Congress had given the land to encourage trans-continental building, to assist the problem of transit to the Pacific coast. The adventurers flouted this purpose and used the benevolence to build where they could collect the most tribute and get it most easily.

Tribute began early. Public land had generally been for settlement $1.25 an acre. To reimburse the public treasury for the grants to these adventurers the price of the remaining land to settlers was made $2.50 an acre,—thus neatly saddling upon the settlers

the cost of the railroad and beginning a load that the producers have borne ever since.

The company sold more than half a million acres of land thus obtained at an average of $8.68 an acre, which alone reaped a sum sufficient to build and equip the line two-thirds of the way across the state. Counting the money donated by counties and municipalities we may be sure that not one dollar of invested capital was required to build the road, but it was constructed and delivered to its owners as a free gift.

These continued to mortgage the property thus bestowed upon them by a benevolent people and to use the proceeds in building other lines.

In 1866 the Gentlemen on the Inside for their own purposes announced a default upon these mortgages, shook out the small fry, and sold the property from themselves to themselves as the Chicago, Rock Island & Pacific Railroad Company of Iowa, which they had organized and officered.

The Chicago & Rock Island Company of Illinois had at that time a capital stock of $6,500,000. The same Interests controlled both. They issued $2,600,000 of new Chicago & Rock Island stock to stockholders at 20 per cent of its par value, thus presenting themselves with $2,080,000 as a free gift. With the $520,000 of cash secured from this issue they consolidated the Chicago & Rock Island of Illinois and the Chicago, Rock Island & Pacific of Iowa.

The first course had been laid on the pyramid.

The next was added within a year when the capital stock was increased to $9,099,400.

On this, substantial dividends were paid, year in and year out.

About May 1, 1869, the next course was put in place by these master builders, being an issue of $2,900,000 of stock that was never paid for and constituted another free gift to themselves at our expense.

Pyramid now $14,000,000.

The road, with the public loot that I have described, was built through to Council Bluffs, where it connected with the Union Pacific.

Another layer of stock issued the next year brought the pyramid to $16,000,000.

Building went smoothly on under these skillful architects. Another layer of stock was issued in 1872 for so-called construction purposes.

Pyramid $22,000,000.

All this time the road was paying large dividends, even upon fictitious stock issues, and was building branch lines by diverting its surplus earnings to that purpose. In other words, the Leasing Game, previously described in these simple annals of the rich. In 1877 it went through the usual motions of acquiring its own property and absorbed the largest of these lines, the Chicago & Southwestern Railroad, which gave it a road to Atchison, Leavenworth and eventually to Kansas City, gateway of the great southwestern traffic. It was now operating 1,003 miles of trackage.

About this time it began to be confronted with a menace that in any other country than ours could never exist, and yet in our country was and often has been, and still is at times, serious to the management of prosperous railroad enterprises.

It was making too much money.

The dividends were 10 per cent. There was a large and steadily-mounting surplus. The directors did not

dare to increase the size of the dividend; and yet they wanted to lay hands upon that surplus; and the overwhelming problem to them was how to get it and avoid the law and other consequences that might be painful.

It was a troublous time in railroad history. The Grange movement had come to the West and had afforded the pyramid builders a satisfying view of the day of judgment. The simple, unsophisticated farmer of the railroad exploiter's pleasant dreams had suddenly become an awakened and highly-intelligent giant, convinced that he had had about enough. He had discovered that for all the agreeable feats in sudden fortune making he was the goat. When stock was watered, he paid for it. When rates were sneaked up to support the watered stock, he paid for them. When his legislators and public officers were bribed to give things to the railroads, he paid for the bribing. When the railroads hired newspapers and writers to lie in their behalf, he paid the hire. And he was beginning to weary of a situation in which he toiled and sweated for the benefit of the Gentlemen on the Inside and got nothing for himself but mortgages he must pay.

A great change was beginning in public opinion. For many years men that had manipulated certain railroad properties, and had, by all accounts, often cheated, lied, bribed, overawed, corrupted and marauded in that pursuit, had been regarded by a part of the community with admiration as smart men and developers of the country and all that. At last sloppy adulation had begun to ebb. Many persons perceived the truth that these maraudings were at public expense and in no way smarter or more admirable than those of train robbers and stage bandits.

The discovery had not been wholesome for financial brigands.

This railroad, constructed at public expense, was piling up this annual surplus, and no one in the face of the state of public opinion at that time dared to suggest that the dividends be made greater than 10 per cent. To increase them would surely bring down the wrath of the people from whom the money had been gouged. What, then, should be done?

For a long time the problem plagued the directors, and meantime the surplus grew and grew. In 1878 they canceled $4,020,000 of stock held as an asset in the company's treasury and appointed a special committee to devise a way by which the rest of the surplus might be distributed without landing anybody in jail.

The surplus was now $8,296,982, equal to almost 50 per cent on the outstanding capital stock, and representing about as much money as had ever been put into the road. It was steadily increasing. True, it might be spent for needed improvements. The road badly needed double tracking; it had only dirt ballast and mostly wooden bridges. But if the surplus were devoted to any such purpose, how would that benefit the Gentlemen on the Inside? They might as well throw the surplus into the lake, for they would get none of it. Well, then what?

In benighted New Zealand and other despicable countries that have not our blessings the problem would have been solved long before, because in such regions when the railroad income goes beyond 3 per cent on the actual investment the rates are reduced to the public.

If the Chicago, Rock Island & Pacific had been in

New Zealand it would by this time have reduced its rates more than two-thirds. Passenger rates, for instance, would have been one cent a mile instead of three.

The Chicago, Rock Island & Pacific was not in New Zealand. It was in Illinois and Iowa. There are no pyramids in New Zealand. That is why it is so much inferior to our country and why we ought to despise it.

Nevertheless, even in our country there are men that do not like to see a pyramid standing on its head. So for years they have been trying to prevent the building of such pyramids. They have passed laws against that kind of building; all kinds of laws sternly forbidding anyone to mix the mortar or get out the courses or lay the foundations, or in any way to plan for a pyramid that shall stand on its head. These men are still engaged in devising and passing such laws and dreaming strange dreams about them. The State of Illinois had a law of their devising. It forbade railroads to issue stock or scrip dividends, or, in other words, to cut melons.

So now we can see how valuable such laws are and how wise the gentlemen that spend time in getting them passed and more time dreaming about them.

This was the way of it. In June, 1880, the pyramid builders formed a new company called the Chicago, Rock Island & Pacific Railway Company; not Railroad, note, but Railway.

They prepared for it $41,960,000 of stock, $50,000,000 being authorized. Then they exchanged in their safes two shares of the new company, the Chicago, Rock Island & Pacific Railway for every share of the

old company, the Chicago, Rock Island & Pacific Railroad.

Thus they laid upon the pyramid in one mighty monumental course $20,980,000—all of fictitious origin.

It is only in building these pyramids that you can make something of nothing.

At this time the company was operating 1,051 miles of line, only 48 miles more than in 1877.

Its share capitalization (excluding the bonds, please note) was $20,917 a mile in 1877. In 1880, after these triumphs of finance, it was $39,942 a mile.

On the old capitalization the road had been paying 10 per cent dividends. On the new capitalization it paid 5 per cent dividends.

For one year only. Then they began to walk into that surplus.

The very next year the dividends were made 7 per cent, equal to 14 per cent on the old capitalization and equal to 33 per cent on the actual investment.

How poor by comparison seems the 3 per cent limit of New Zealand!

With the dividends still at 7 per cent, $4,196,000 of new stock was issued in 1887 at par to the Gentlemen on the Inside. Market price, 120. A present to the Insiders of $839,200 and the same amount taken out of us. A small but neat specimen of the Melon Game.

To this device too little attention has been paid. If it is ever attacked it is defended as a piece of railroad business affecting no one but the beneficiaries.

"It's none of the public's concern" is the invariable

comment of the melon cutters when there has been a tendency to criticize this kind of horticulture.

Is it none of the public's concern? Let us see about that.

A railroad directorate votes to issue $10,000,000 of new stock to the stockholders at 80 when the market price is 100, thus providing the stockholders with a melon of 20 per cent. No matter what the price there is added to the capitalization but $10,000,000, so what difference does the price make to us?

Merely this, that the treasury of the company misses $2,000,000 that it ought to have had, and the next time there is an issue of securities this deficit must be made up.

The next time instead of an issue of $10,000,000, there will be one of $12,000,000.

To meet this addition, of course, rates must be adjusted accordingly. The more capitalization the higher the rates.

An increase of one dollar in these rates has been estimated to mean an increase of four dollars when it reaches the final consumer, the public, you and me. We are told that such things are none of the public's concern. If that is true, then nothing is the public's concern, and its only function is to work, yield up the fruits of its toil and be silent.

If we are unwilling to admit this idea, let us examine further the history of this pyramid and see if we can how much it has cost us.

1891. This year the company bought the Chicago, Kansas & Nebraska, one of its subsidiaries which it had built out of itself. There was a nominal purchase of $25,222,000 in securities—an illustration of the

Consolidation Device. The addition comprised 1,388 miles of line.

The control was also quietly securing with surplus revenues possession of the Burlington, Cedar Rapids & Northern, a north and south line by which the Chicago, Rock Island & Pacific obtained entrance to St. Paul and Minneapolis and the rich northwestern field.

Following the panic of 1893 the dividend rate was cut to 2 per cent. In 1897 it was restored to 4 per cent.

These were not good years for pyramid building.

But in July, 1898, work was resumed on the grand old structure and a fine new course was laid, being $3,844,000 of additional stock, issued and bestowed freely upon the existing stockholders. To make it up the company took $771,600 from the surplus and in the market bought stock to that amount and then gave it to the stockholders, the rest of the issue being new stock on which we have to this day the pleasure of providing the dividends.

Pyramid now $50,000,000.

The excuse for this remarkable transaction was that from 1880 to 1885 the company had spent $8,213,000 of earnings for construction, but it had promised its dear old mother or somebody that some time it would make restitution to the stockholders, who were conveniently imagined to have been wronged in some way by these expenditures, so it now restored about $3,844,000 of the amount—which it had landed upon the pyramid.

Some persons think that the railroad business is not one that involves in its pursuit much imagination or

sentiment. I cite the above pleasing incident in refutation of this idea.

1901. The road was now earning net 10 per cent even on this inflated capitalization, which was equal to 22 per cent on the old capitalization and 33 per cent more on all the money ever paid in for the stock.

The stock being worth 170 in the market, a new issue of $10,000,000 was made to the Insiders at par, thus presenting them with $7,000,000 and depriving the company's treasury of that amount.

Pyramid now $60,000,000 in capital stock, to say nothing of the bonds. Possibly, as has been asserted by the unsympathetic, these pyramid builders, being of Wall Street, didn't know any more about a railroad as a public service or a railroad as a practical device to transport people and their goods than a landsman knows about a ship. As we manage things in our happy land they did not need to know. All they needed was skill in making a pyramid stand upon its head, and when you come to that accomplishment they were as good as the best. They were, in fact, merely the perfect exponents of the theory of the private ownership of public utilities; they carried the theory to its legitimate and normal conclusion. All the practitioners of that theory are engaged in building pyramids at the public expense. These were only better builders than many others. Some persons have found a lot of fault with their workmanship. Why not find fault with this style of ownership? That is the thing to object to if you do not happen to like pyramids that stand on their heads. Some persons wonder that our railroad system has broken down. In view of the style of ownership that we insist upon and its inevitable

objects the only wonderful thing is that anybody should wonder.

So the next thing the world knew of these matters, new architects had seized the ready trowel and were adding many courses to the great Rock Island Pyramid, wonder of the ages.

They quickly showed that most other pyramid builders were children by cmparison and that pyramid building is the best business in the world.

They had formed a syndicate in Wall Street and acquired enough of the stock of the Chicago, Rock Island & Pacific Railway to enable them to control and direct, on the financial side, the ostensible management. How much stock this really involved is not known and not material. Often for such control the stock that actually changes hands is but a small amount and sometimes it is nothing. Forgotten testimony before the Pujo committee showed the ease and simplicity of this feat.

The next turn out of the box the company issued $24,000,000 of collateral trust 4 per cent bonds and without expending a cent secured the St. Louis, Kansas City & Colorado, extending 100 miles west from St. Louis, and the Choctaw, Oklahoma & Gulf, an extensive system with lines west from Memphis.

Few things in this world, I may explain here, are more easily made than a collateral trust bond. A railroad company issues much stock that it does not need and maybe cannot sell. Then it takes a bundle of this stock and ties it together and issues against it a bond that has the stock for security or collateral. The thing sounds, of course, like a stock issue with another name, and to a certain extent is just that. But a collateral

trust bond looks better than a stock issue, is more easily sold and carries with it no share in the control of the property.

In this instance, as in many others in our sweet railroad history, the collateral trust bond was used as means to secure valuable property without expense.

That is to say, the management had begun at once to practice the surest and grandest of all formulas for the making of great wealth at public expense. Having secured control over one railroad they proceeded to issue securities upon it and with these purchased another railroad.

Next year this was followed by the purchase of the Kansas City, Peoria & Chicago, with 142 miles of line.

It now became evident that with the deft processes of the printing press and the inflated security great combinations had been planned.

Fifteen million dollars of a new stock issue were added, and the Burlington, Cedar Rapids & Northern stock, which had been selling at 160, was exchanged share for share for Chicago, Rock Island & Pacific, selling at 170.

Pyramid now $75,000,000.

This deal was savagely attacked in the courts and did not go through without much difficulty. In the end the pyramid builders got away with it.

These were rapid workmen. No day without its course added to the pyramid was their motto. They had hardly put the $15,000,000 of new stock in place when they caused the fact to be known that another Good Thing was at hand; whereupon the price of the stock advanced $50 a share.

On July 31, 1902, the new Good Thing materialized

and proved to be, in fact, two Good Things—of a kind to astonish all beholders.

On that day a concern called the Chicago, Rock Island & Pacific Railroad Company was organized as a holding company in Iowa, and a concern called the Rock Island Company was organized as a holding company in New Jersey. "A holding company is a Good Thing," said the pyramid builders. "The only thing better than one holding company is two holding companies."

The holding company organized in Iowa was to hold the Chicago, Rock Island & Pacific Railway Company. The holding company organized in New Jersey was to hold the holding company organized in Iowa.

This is literally true, however lunatic it may sound to persons uninitiated into the mysteries of high finance. Thus:

The Chicago, Rock Island & Pacific Railway Company, with a capital stock of $75,000,000 and a funded debt of $71,981,000, operated the railroad, 3,883 miles of line, gouged the receipts and kept the physical structure from falling down.

The Chicago, Rock Island & Pacific Railroad Company, being the Iowa holding concern, with a capital stock of $145,000,000 and a funded debt of $93,500,000, held the operating company, got the tribute and passed it along.

The Rock Island Company, the New Jersey holding concern, with a capital stock outstanding of $150,000,000 (common and preferred) held the Iowa holding concern.

The New Jersey holding company owned the entire outstanding stock of the next holding company.

The next holding company owned 95.04 per cent of the capital stock of the operating company.

Holding company No. 2 (Iowa) issued 4 per cent collateral trust bonds, due in the year of grace 2002.

Holding company No. 1 (New Jersey) issued common and preferred stock.

Every $100 share of stock in the old Chicago, Rock Island & Pacific Railway Company, the operating concern, was exchangeable for $100 of the collateral trust bonds of Holding Company No. 2, plus $100 of the common stock and plus $70 of the prefered stock of Holding Company No. 1.

That is to say, $270 for $100.

Thus with one stroke there was added to the capitalization of this enterprise the largest amount of water ever involved in any one transaction in the history of American finance.

The result was of the greatest importance to us that must pay the interest and dividends upon all this fictitious capital, thus so enormously increased, but there were other results that to the merry pyramid builders were of even greater moment.

First, they were enabled to exchange all their original stock holdings into bonds, if they so wished. This left them with their fortunes secure no matter what might happen. Second, they had now decreed to themselves without paying a cent thereafter still larger holdings of stock than they had previously had; $270 for every $100.

The remarkable feat of securing absolute and prolonged control of a property like this without risking a dollar in it was achieved by an ingenious little clause in the organization of Holding Company No. 1, by

which holders of preferred stock had the right, exclusive of the holders of common stock, to choose the directors.

The taking of the profits was arranged for in other little clauses by which the operating company earned from the public the money to pay the 4 per cent interest on the collateral bonds of Holding Company No. 2 and all in excess of this interest went to Holding Company No. 2 as dividends upon the stock of that company. These dividends were then paid to Holding Company No. 1, which used them (when it got them) to pay the dividends on its own common and preferred stock.

If the operating company made a great deal of money from the public these arrangements insured its safe and quiet delivery to the Gentlemen on the Inside.

If the operating company, heavily loaded with so many charges, made from the public no more than enough to pay the interest on the bonds, that interest was still secure for the same Gentlemen.

Heads I win; tails you lose.

This being cinched, they now proceeded to a gamble which was a truly marvelous conception, particularly in view of the fact that the things gambled in were the highways of the people. At one time the scheme embraced the consolidation (without expense) of the Chicago, Rock Island & Pacific with the great St. Louis & San Francisco system, the Houston & Texas Central, the Houston & West Texas, and Houston & Shreveport. The St. Louis & San Francisco alone comprised more than 5,000 miles of line; the combination would have been the greatest in the world. The plan in regard to the Texas roads, after progressing to a point

where it was anounced as completed, fell through, but the St. Louis & San Francisco was absorbed without paying a cent for it. Five per cent collateral trust bonds of the Iowa holding company, the Chicago, Rock Island & Pacific Railroad Company, were exchanged for 90 per cent of the $29,000,000 outstanding common stock of the St. Louis & San Francisco, and the two systems began to be operated together.

The essence of this arrangement was that the public was to pay for the purchased property and give it to the Gentlemen of the Pyramid.

At this time tonnage was heavy on both systems; the outlook was joyous.

After the deal came a period of comparatively lighter business. The gamble went wrong. Complaint was made that financial architects were operating the combined systems too much for the benefit of the pyramid and not enough for the physical welfare of the roads.

On December 1, 1909, after the combination had lasted about six years, this part of the pyramid fell in. The pyramiders sold to a syndicate headed by B. F. Yoakum the St. Louis & San Francisco stock they held, and immediately called in the 5 per cent collateral trust bonds.

This operation was done at a loss, and to cover it the Iowa holding company issued $7,500,000 of new 5 per cent bonds, which again were water.

Under these shocks the pyramid visibly tottered. At last there came a day when the abnormal thing could no longer defy nature and stand upon its head. All the money poured into its hoppers did not provide enough to pay the interest upon one of its many bond

issues. A receiver was appointed and the huge thing fell to earth with a loud and painful sound.

Then it was discovered that the builders had nimbly skipped aside before it collapsed and the losses would fall upon others.

Meantime, this once magnificent property, the natural highway of a great population, had been squeezed and drained to wring from it the heavy charges that these operations imposed.

As to which, I cite some facts extremely pertinent to you if you have household expenses to meet.

In 1903, when these exploits were but beginning, the bonded indebtedness of the road was $21,543 a mile; by 1911 it had reached $32,146 a mile.

This is the way the annual interest charges soared:

1905	$7,096,096
1906	7,748,170
1907	8,279,300
1908	8,413,222
1909	8,861,173
1910	9,129,785
1911	9,741,853

How do these interest charges come about?

Well, here is plainly enough the way some of them come about. Here are four years' performances in issuing equipment trust notes for new equipment that ought to have been paid for from earnings and couldn't be because the earnings were swept away by this enormous capitalization:

1907	Equipment trust notes,	4½ p.c.	$3,900,000
1907	" " "	6 p.c. Series B	240,000
1909	" " "	4½ p.c. Series C	4,505,000
1910	" " "	4½ p.c. Series D	6,300,000
1911	" " "	5 p.c. Series E	100,000

Ostensibly, these were all short-time notes. But in the report for 1911 it appeared that a considerable part of these charges were being made permanent by issuing, in lieu of the equipment trust notes as fast as they came due, long-term bonds for "additions and betterments, including equipment."

On all these devices again we must pay the interest charges. And yet the railroad thus bedeviled and all but swamped was normally one of the most profitable in the world.

Once more, poor New Zealand! In that inferior country they have a rule that all additions, improvements and new equipments must be paid for out of earnings and not made an occasion for bond issues nor interest charges. How little they know in New Zealand! On the above equipment notes we have the pleasure of paying about $600,000 a year interest, taken right out of our wages and salaries in the shape of living expenses.

Previous to the rescue of the St. Louis & San Francisco from this hysterical enterprise rumors were abroad that something unusually good was to be expected in the preferred stock of the Rock Island Company. The year before the price of this stock had sagged to 21. It now rose to 94, at which price great quantities of it were unloaded. After which it fell to 54. The rumors proved to be mere dreams of the pipe variety.

Who it was that unloaded may be guessed from what was revealed when the receivership came.

Here is a chronological account of the water in this colossal thing:

AN INCREASING FLOOD.

1866—Water in old C. R. I. & P. R. R.	$ 2,080,000
1869— " " " "	4,900,000
1880— " " new "	20,980,000
1898— " " " "	3,844,000
1902— " " " "	145,000,000
1902— " " " Rock Island Co.	124,868,625
1909— " " " C. R. I. & P. bonds	7,500,000
Total	$307,172,625
Less duplication in the above	$124,868,625
Net water	182,304,000

This disregarding the land grant and other items that, strictly speaking, should be included in the water.

Meantime there have been issued to the Insiders the following luscious melons:

1869—Old C. R. I. & P. R. R. Co.	$ 400,000
1870— " "	116,000
1878— " "	4,020,000
1887—New C. R. I. & P. R. R. Co.	839,200
1898— " "	771,600
1908— " "	7,000,000
Total	$13,146,800

The whole huge pyramid of ultimate capitalization rested upon the earning power of the operating company, the thing that runs the trains and keeps the bridges from falling down, the only thing that means aught to the public, the only thing that has any relation to a transportation service. That is to say, it rests upon the operation of the Chicago, Rock Island & Pacific Railway Company.

The outstanding capital stock of this company was $74,877,200.

It will be seen from the foregoing table that in this capital stock there was $31,804,000 of water.

Deducting this, we have as the total cash paid stock in the concern the sum of $43,973,200. And the net income in 1911 was $19,431,790, or 44 per cent upon the actual investment.

This is the basis upon which this sky-scraping pyramid stood—on its head.

Was not this a fearful and wonderful thing?

CHAPTER IX

THE CINCINNATI, HAMILTON & DAYTON

Physical Perils of Overcapitalization.

On the 31st of December, 1912, Mr. Daniel Willard, President of the Cincinnati, Hamilton & Dayton Railroad, five other officers and ten directors of the company were indicted at Indianapolis, Indiana, charged with manslaughter.

Manslaughter! Has an ugly, menacing, terrifying sound, hasn't it? Suggests prison cells, and great, clanging locks, and things still worse. And these were all eminent gentlemen of the utmost respectability, too; some conspicuous in the highest walks of high finance and at least one a reformer with name familiar in the mellow trump of fame. And now indicted for manslaughter!

After Mr. Willard came these his fellows included with him in this awesome charge:

George F. Randolph, *Vice-President of the Road.*

George M. Schriver, *Second Vice-President.*

W. G. Loree, *General Manager.*

H. B. Voorhees, *General Superintendent.*

R. B. White, *Division Superintendent.*

George W. Perkins, *Eminent Reformer and Apostle of Regulation's Artful Aid, Director of the Road.*

F. D. Underwood, *Director.*

Norman B. Ream, *Director.*

L. F. Loree, *Director.*

H. P. Davison, *Director.*
F. W. Stevens, *Director.*
Joseph Wood, *Director.*
E. R. Bacon, *Director.*
Harry Bronner, *Director.*
O. G. Murray, *Director.*

All these, with two of their obscure and lowly employes, charged with the grave crime of manslaughter! How could gentlemen of such distinction be mixed up in anything like that?

Why, on November 13, 1912, there had been another wreck on the Cincinnati, Hamilton & Dayton. It was not much of a wreck for that road, nor seemingly for that road entitled to stand out from a long and dismal record of such things. But in this case certain public officers in Indiana thought it time the Cincinnati, Hamilton & Dayton should begin to observe the laws of the State; also that it should begin to run its trains on rails instead of in the ditch. Whereupon the indictment.

The accident occurred within the city limits of Indianapolis and resulted from a complication of railroad diseases.

An overloaded and underpowered freight engine was trying to pull eastbound freight No. 95 from Indianapolis to Hamilton, Ohio. It stalled on a one per cent grade. The splitting of the train to get it up this formidable obstacle threw it off its schedule. It was due to meet fast passenger train No. 36 at Julietta, six miles away. The engineer saw he could not make Julietta in time and pulled into a siding to let the fast passenger go by. The road is single tracked, there were no automatic block signals, the switch lamp was

not burning, the crew of No. 95 was composed of new and inexperienced men, the switch was not properly closed, the passenger was behind time and running at excessive speed. It dashed into the open switch and struck the standing freight train. All the passenger cars were of wooden construction and ground up like punk.

Fifteen persons were killed; eleven were injured.

Here, obviously, was manslaughter, or the like.

About those absent block signals, for instance. The Indiana State Railroad commission had ordered them to be installed upon every railroad in the state and finally had named as the utmost limit January 1, 1912, beyond which no railroad must be without this equipment. Twelve months had passed and the Cincinnati, Hamilton & Dayton still had failed to comply with this order.

Commissioners, grand jurymen, citizens were highly indignant when this fact was disclosed. What are laws for?

"The Commission believes," said its chairman, "that in order to prevent such fatalities where officers or men of these companies, including their directors, carelessly or negligently do or omit to do an act from which the death of passenger or employe results they should be prosecuted and convicted.

"We think not only the man who forgets, but the officer who employs an incompetent man and the director who diverts to other purposes the revenue that should be appropriated to securing good men, to installing safety devices and the like should be held criminally accountable."

If you are a law-breaking director or officer I guess that will hold you for a while.

Chief Inspector Belnap of the Interstate Commerce Commission came along promptly, made a careful investigation and diagnosed some things that to travelers and railroad workers were of grave significance.

Train No. 95, the freight, consisted of an engine, twenty-six loaded cars, four empty cars and caboose. It stalled upon a one per cent grade. The Chief Inspector's report says:

"The records of the company show that trains frequently were compelled to double into Irvington, the first station reached after leaving the terminal. On sixteen occasions during the sixty days preceding this accident trains had doubled into Irvington, and engine No. 426, which was hauling this train, had doubled into this passing track seven times out of this total of sixteen and on only one trip did it have a full tonnage rating" [*i. e.*, in the load it was pulling].

"On the date of the accident it had ninety-nine tons less than the full tonnage rating.

"Evidence was also introduced showing that the coal was poor and that regardless of the fact that the reports on engine No. 426 showed it to be in good steaming condition, the engine was unable to handle the train."

"The investigation disclosed the fact that on this railroad switch lamps are frequently found not burning. The chief train dispatcher stated that each night on this division four or five switch lamps are reported not burning. This seems to indicate either that the lamps do not receive proper attention or that they are inadequate."

The Cincinnati, Hamilton & Dayton Railroad—physical and financial derelict.

Why? It was an old, established enterprise, it connected populous centers, it traversed a rich, busy, thriving, productive region, it had an enormous traffic. Why derelict? For years and years it had been one of the safest, best-equipped, most solid, most profitable railroads in the United States.

When the population of the region it threaded was about one-third as great as the present population, it earned ten per cent dividends and maintained its physical condition at par. What happened to it?

Take a look at its story, for here you have in tabloid form the whole thing.

It was organized in 1846 and began to be operated in 1851, about sixty miles long, directly connecting Cincinnati and Dayton. The next thirteen years produced these results:

Year	Capital Stock	Dividends Paid Thereon
1852	$1,463,325	4 per cent
1853	1,694,000	5 " "
1854	2,158,900	10 " "
1855	2,155,800	5 " "
1856	2,155,800	5 " "
1857	2,155,800	7½ " "
1858	2,155,800	.. " "
1859	2,155,800	.. " "
1860	2,155,800	7 " "
1861	2,155,800	7 " "
1862	2,155,800	7½ " "
1863	2,399,500	10 " "
1864	3,000,000	10 " "

In these years it had paid about eighty per cent in cash and twenty per cent in stock dividends. Origi-

nally it had been devoted, in a quaint, old-fashioned, farmerlike way, to the secondary object of the American railroad system, which is the transportation of freight and passengers. Then it began to perk up and realize the pleasant horticultural things that could be brought to table by pursuit of the primary object, which is attained through the job printer and the pen and consists of issuing securities.

In these thirteen years it had increased its stock $1,536,675, which was more than half of its capitalization and was paying ten per cent on water and all.

1869. This year on the illusive prospect of a lease to the old Atlantic & Great Western it hoisted its capital stock $500,000.

The same year it declared a cash dividend of six per cent and a scrip dividend of five per cent, payable in bonds, which were a burden laid upon the future operating revenues.

Six per cent dividends were the rule until it struck the long, lean season that followed the great panic of 1873. Whereupon, in common with other roads, this enterprise passed up the dividends. In 1880 it resumed them at 3½ per cent, in 1881 4 per cent and in 1882 came back to the good old 6 per cent solid as a rock.

Meantime the operations and mileage of the road had been much extended by various means, but chiefly by a device, very familiar in American railroad history, the Interlocking Lease.

The true purpose of this device, as we have found in the many samples of it we have examined, is to conceal earnings and to make them appear very small when in reality they are very large.

This trick was now worked repeatedly in the case of the Cincinnati, Hamilton & Dayton and added simultaneously to its mileage and the welfare of the gentlemen that on the Inside of things were getting rich at public expense.

In spite of such operations, which are always, by the way, regarded as legitimate, and in spite of the watering of its stock, its financial history was for an American road, a fairly clean slate. It was recognized as a solid old institution and a great money earner. As such it began to attract the attention of eminent financiers that on all sides of it were building fortunes by the use of the job press, the ready pen, and the inflated security. In the eyes of such, a money-earning railroad not already loaded to the limit with water, is as the delectable mountains.

In 1882 these devised a promising scheme to consolidate the Cincinnati, Hamilton & Dayton on the good old leasing basis with the Cleveland, Columbus, Cincinnati & Indianapolis. The courts knocked this out.

The next year a deal was fixed up in the highest style of the horticultural art by which the Cincinnati, Hamilton & Dayton issued $1,000,000 of preferred stock, and was next to be turned over to the Erie. In exchange for Cincinnati, Hamilton & Dayton stock thus watered, the poor old Erie was to issue and guarantee six per cent certificates.

Every consolidation scheme brings down a stock freshet and every stock freshet produces new melons, which mean a new burden of charges on the operating revenues.

In this instance again the courts interfered with the

scheme. They do sometimes. About once in ten thousand.

There now appeared upon this attractive field one of the ablest of all the masters we have ever known of the pleasant art of making melons grow and ripen on nothing but water. This, it will be admitted, is saying much, but not too much if you know the records of our American horticulture. For about five years previous to September, 1887, the financial circles were dazed with the exploits and the world's imagination was fired with the fame of Henry S. Ives, known from ocean to ocean as "the young Napoleon of finance." It was this mighty genius that now turned his attention to Cincinnati, Hamilton & Dayton, with results that in some quarters occasioned consternation.

Perhaps we ought to pause here to consider the achievements and career of this young man, since he should have more than one abiding interest for us.

He had begun life in a New York broker's office, where he had assimilated much of the idea of glorious American oportunity that so earnestly we hold out to our young men. He gathered that the correct purpose in life was to become rich, and having spread before him the financial biographies of so many Americans that had become rich, he made a careful study of the ways they had pursued. When he had seized their secret he went forth and applied it with liberal hand, and in a short time was a financial hero of unprecedented magnitude.

"The young Napoleon of Finance." At times he seemed more than a Napoleon; he seemed a youthful prodigy and wizard, at whose touch all things turned to gold—or melons; same thing. Success after success

crowned him with laurels of the desirable long green; the astounded community marveled over so many triumphs of skill and daring. How did he do these things?

He had laid hold of the very arcanum of success. He had mastered the function of the job press, the ready pen and the bogus security, as the true tools of scientific horticulture, melons and wealth.

Casting his eagle eye over the list of American railroads for one not already in a state of wreckage from the exercise of these useful implements, he fell upon this Cincinnati, Hamilton & Dayton compact, profitable, with a capital stock only two-thirds water and capable of yielding almost anything to a skilled application of the job press, the ready pen and the advanced principles of fortune-making.

Late in 1885, he went quietly to work and his firm, the once famous Henry S. Ives & Company, secured control of a majority of Cincinnati, Hamilton & Dayton stock. On June 15, 1886, he had himself elected a director and George H. Stayner, a member of his firm, chosen to be president of the railroad. To this was no opposition—at the meeting. He controlled the majority of the stock.

On September 16, 1886, he called at his office in New York a meeting of stockholders, consisting, apparently, of himself and Stayner, and brought in from the garden a bit of juicy fruit that would delight the eyes of any expert in melon growing.

It was an issue of $10,000,000 of preferred stock, which brought the capital to $14,500,000.

On February 8, 1887, this was hoisted again with an issue of $500,000 of common stock. The common was

then paying eight per cent dividends, and the road had been earning a neat surplus.

The $10,000,000 of preferred stock was issued through Henry S. Ives & Company, who proceeded to hypothecate it and play other tricks with it, after the most approved methods of financial wizardry. Among the things they had in view was a plan to hitch the Cincinnati, Hamilton & Dayton to the Baltimore & Ohio, a proposal which, as it would introduce the Leasing Game on a large scale, was looked upon with much enthusiasm in the best circles.

On September 10, 1887, Young Napoleon met with a Waterloo that finished him. He had been applying not wisely but too well the principles of railroad fortune making. The resources of the job press and the fountain pen were overworked and exhausted, and the firm of Henry S. Ives & Company blew up with a loud bang.

Among the institutions Young Napoleon had managed to wreck was the Cincinnati, Hamilton & Dayton. No return for the $10,000,000 of preferred stock created at the touch of his magic wand had ever reached the company's treasury except "a credit with Ives & Company of $12,000,000 subject to check on demand"; but this proved to be no merchantable consideration, since the cash assets of Ives & Company, when the firm exploded, were about $1,000.

A committee of such stockholders and directors as had been outside of Napoleon's camp journeyed down to New York to view the ruins, which were picturesque. They found $5,249,000 of the preferred stock where they could lay hands upon it, and promptly cancelled it, declaring the issue to be fraudulent and void.

They went back to Ohio and induced the courts there to cancel $2,000,000 more, but the rest was out, having been pledged by Napoleon. So late as March, 1890, $2,406,900 of this stock was in the hands of innocent purchasers, who formed a syndicate to protect their interests and take up the securities pledged by Ives. For the next two or three years some expert bookkeeping was required to take care of this account, the item being carried in the balance sheet among the assets (apparently for a humorous purpose) and accompanied by the single but apropriate word "suspense."

Physically the road never recovered from the blow of these operations. Yet, strange to say, it continued to be manipulated by the financiers, who added still farther to the great load it was bearing. For the next two years no dividends were paid on the common stock and strict economy and a reduction of wages followed.

But on May 9, 1892, the common stock was increased from $4,000,000 to $8,000,000, and after a time dividends were squeezed from the property on all this overcapitalization. Four per cent on the preferred and five per cent on the common.

July 8, 1895, the Cincinnati, Hamilton & Dayton, Cincinnati, Dayton & Ironton and Cincinnati, Dayton & Chicago were merged, the occasion being made jubilee, as usual, by plenty of high water. Eight millions of new common stock was authorized, also a new preferred stock bearing five per cent, for which the holders of the old four per cent preferred stock were privileged to exchange their holdings. Each share of Cincinnati, Hamilton & Dayton common (old) received 155 in new preferred and 200 in new common,

or $355 in stock for each $100—altogether one of the choicest melons ever gathered, and a beauty bright.

Holders of stock in the other roads exchanged on the basis of one for four.

These amazing operations brought out $14,712,000 of new stock, $6,975,000 of preferred and the rest common.

In all these years the process of absorbing outlying roads and loading the operating revenue with additional interest charges was zealously pushed.

In 1901 the capital stock was $16,000,000, and the company was operating 652 miles of road.

June 18, 1904, came out the authorized statement that the Cincinnati, Hamilton & Dayton had been bought by the Interests that owned the Pere Marquette. Common stock of the Pere Marquette (unproductive of dividends) to the amount of $11,000,000 was transferred to the Cincinnati, Hamilton & Dayton, which thereupon issued $5,500,000 more of common stock of its own. This brought the common stock to $13,500,000 and with the preferred stock lifted the share capitalization to $20,425,500.

In 1905 the Leasing Game was played between these two roads in its most offensive form. From the first the deal had been of an extremely flagrant nature. The Cincinnati, Hamilton & Dayton now leased the Pere Marquette (both having the same control), undertaking to pay four per cent on $10,512,200 Pere Marquette preferred and five per cent on $14,140,000 Pere Marquette common. The essence of this cold-drawn arrangement was that the Cincinnati, Hamilton & Dayton, a road with a great business and a rich territory, was saddled with a huge, unprofitable enter-

prise. The Pere Marquette had paid in five years small dividends on its preferred and three dividends at the rate of 4 per cent on its common. But, as will appear elsewhere, these dividends had not really been earned, and the paying of them caused a railroad scandal.

In addition to all this monstrous burden now placed upon it, the capital stock of the Cincinnati, Hamilton & Dayton on its own account had been watered to the following proportions:

Old preferred, including what was still left of Napoleon's work	$ 1,024,500
New 5 per cent. preferred	6,925,500
Total preferred	$ 8,000,000
Common stock	13,500,000
Total	$21,500,000

The same year J. P. Morgan & Company came into the game and took over the holdings (about $6,000,000 of preferred) that had been secured by a syndicate of brokers when the first Pere Marquette deal was put through.

The next news the financial world had of this stock it had been dumped upon the Erie (in which Mr. Morgan was also influential) at $160 a share, the poor old Erie to issue a new line of bonds to take it up. If you know aught of the load of securities under which Erie is staggering along you will think this incredible; yet it is the sober truth. One of Mr. Morgan's partners was director in Erie, and other Erie directors were put upon the board of the Cincinnati, Hamilton & Dayton.

But when the active administration of Erie got a

good look at things from the inside it declared the deal off, and Mr. Morgan was compelled to take back his Cincinnati, Hamilton & Dayton stock.

Whereupon the road went into the hands of a receiver, Mr. Morgan choosing Hon. Judson Harmon, who was Mr. Morgan's preference for the Democratic nomination for president in 1912. The derelict had been loaded to a point where it was waterlogged.

Next the abominable Pere Marquette lease was knocked out or broke down or something.

Then in 1909 a deal was patched up with the Baltimore & Ohio, which agreed to buy at the end of seven years and at a price to be fixed by arbitration, the stock that J. P. Morgan & Company still held, and meantime to operate the road and to guarantee the interest and principal of $11,307,000 of four per cent refunding bonds. This meant more interest charges to be dragged out of operation.

On August 19, 1909, the receiver turned the property back to the corporation, and the next day came another reorganization, the flood gates were again thrown open, and out poured a new refunding mortgage of $12,500,000, a general mortgage of $20,000,000, and purchase money collateral trust gold notes to the extent of $11,557,000—by which latter the road was in effect to purchase itself and deliver itself to the Baltimore & Ohio. These notes the Baltimore & Ohio guaranteed.

This added $44,057,000 to the already extravagant capitalization, except that the new securities retired all but $248,575 of the preferred stocks, about $7,750,000.

In 1911 the 110,000 shares of Pere Marquette stock,

par value $11,000,000, that all this time had been reposing in the treasury of the Cincinnati, Hamilton & Dayton, were turned over to J. P. Morgan & Company —and charged to profit and loss.

TOTAL CAPITALIZATION (STOCKS AND FUNDED DEBT)	
1904	$28,295,000
1905	63,532,000
1906	63,944,000
1907	70,493,000
1908	70,607,000
1909	56,423,575
1910	68,181,575
1911	70,998,865
1912	99,086,880

It was now operating 1,014 miles of line.

At the close of its last fiscal year, June 30, 1912, the report of the poor old Cincinnati, Hamilton & Dayton wreck showed this remarkable condition:

Permanent capital assets, such as cost of road and equipment, leaseholds, stocks owned, securities in treasury and other investments	$78,888,092
Permanent capital liabilities, including its own capital stock, capital stock of leased lines, and a bonded indebtedness of $90,838,285	102,800,080
The road was to the bad by	24,111,968

In other words, it was bankrupt, insolvent and broken, having been made so by the job printing press, the fountain pen and the other adjuncts of the ready fortune maker.

Meanwhile the total earnings had increased from $8,008,918 in 1905 to $9,570,282 in 1911.

But under the weight of all this water the expenditures for maintenance of way and structures had been reduced from $903,936 in 1905 to $834,462 in 1911.

That tells the story. No wonder the trains rocked off the tracks.

It was to extract from this broken-down and decrepit thing the interest charges loaded upon it by financial horticulture that Mr. Willard, Mr. Randolph, Mr. Vorhees and the rest were hired.

The operating revenues were insufficient to yield the amount required and to maintain at the same time the physical condition of the road.

The choice presented, and the only choice, was whether they should do the work they were hired to do and squeeze out the interest charges, letting the physical condition take care of itself; or whether they should neglect the work they were hired to do, maintain the physical condition and let the interest charges slide.

If they chose to maintain the physical condition they would fail in the purpose of their employment and promptly lose it. Other men would be put in their places that would do the required work.

Choice! There was no choice. They must get those interest charges or get out.

The next turn of the wheel they are indicted for manslaughter.

However, let us not be disturbed about that. I hardly have need to say that they never went to jail or suffered other inconvenience on that account. I don't know why they should. The real offenders were the men that made a physical and financial wreck of this, one of the best railroad properties in the world.

It was for them that Train No. 36 was wrecked and its passengers and trainmen killed.

CHAPTER X

THE GREAT NORTHERN

The True Uses of Melons.

When the state legislatures, in the early days of railroad history in this country, began to be wary about granting public funds to further the new style of highway, gentlemen with railroad projects in their teeming brains turned to the public domain.

What discouraged the legislatures, as we have seen, was the fact that gentlemen that received these grants always looked upon the new public highway as their private possession and the money lent to them as gifts won by their own superior merits. This was not at all the original idea when railroads were introduced, but it was adopted with enthusiasm by the railroad projectors.

The public domain consisted of the land in the new states and territories of the west that had been acquired from the Indians or otherwise and had not yet been settled. The disposal of it lay in the hands of Congress, where the notion seems to have prevailed either that it was inexhaustible and could be given away forever, or that it was elastic and could be stretched.

By use of the argument that the new regions in the west would never be developed until they were pierced with railroads, that railroads would not be built without grants of the public lands and by still more power-

ful appeals of the kind indicated by Mr. Huntington's correspondence, Congress was persuaded to be extremely generous with the people's landed possessions. So generous, in fact, that in a few years the people awoke to find that they had no such possessions left to them, railroad companies, real and imaginary, having taken an area equal to nine States. It became literally the fact that any combination of men, using the necessary arguments, could get great slices of the public land on the mere assertion that they intended to build a railroad; provided they called it a transcontinental project and gave it a good transcontinental name. The name was important. Something that ended in "Pacific" was the best. A prospectus and a name that contained this magic word were the only visible things necessary; the things invisible seem sometimes to have been quite different and much less lawful.

In 1857 one of the projects that claimed the large, prehensile ear of Congress answered all the requirements as to name, certainly. It was called the Minnesota & Pacific, and seems to have had a map and everything—except a railroad. On March 3 of that year Congress passed a blanket measure giving away great areas of public lands to aid in the building of railroads in what was then the Territory of Minnesota. Nineteen days later the Minnesota legislature chartered the Minnesota & Pacific Railroad Company, which by virtue of this act of Congress immediately became possessed of one-half of the land in a strip ten miles on each side of the line it had drawn on its handsome map. For every mile of line so represented on

that map it was presented with ten square miles of fertile land—out of the people's domain.

In return for this generosity, the company built ten miles of track, from St. Paul to what was then the town of St. Anthony Falls and is now Minneapolis, and there it stopped.

Five years later the Minnesota & Pacific was reorganized as the St. Paul & Pacific. In American railroad history, "Reorganization" almost always means increase of capitalization, for the benefit of the reorganizers. It was so here. The St. Paul & Pacific issued much new stock and many new bonds. It does not appear that the stock was paid for. The bonds were sold in Europe, chiefly in Holland. The money thus obtained was used to build some of the lines projected on the handsome map. But the land bestowed upon the projectors by the generous Congress would have been more than enough to pay for the building of these lines. The projectors, therefore, were in this same pleasant situation we have found others of their kind to enjoy, that without expending any of their own money the railroad was being built and the land grant fell in upon them as so much bonus or velvet. To say nothing of the stock.

That this is exactly true may be seen in a moment from a simple calculation. For every mile of line they received from the government 6,400 acres of land in the public domain. Estimating this land at the value of $2.50 an acre, the land grant amounted to $16,000 a mile. The cost of construction was less than $10,000 a mile.

The stock was of little market value, except perhaps as wall paper, but carried with it the control of

the property. Stockholders could vote; bondholders could not.

This had come to be the common method of organizing a railroad company. One set of men furnished the money and another had the control.

In 1864 the Legislature of Minnesota, at the instigation of the men that had the control, divided this company by creating from it a new corporation that bore the remarkable title of the First Division of the St. Paul & Pacific Railroad Company. It had the same officers as the parent company but otherwise was for a time a thing of mystery. A railroad that has arrived at the dignity of a First Division must have a great deal of trackage to divide, but this railroad had very little. In the end legal proceedings disposed of the mystery. The First Division of the St. Paul & Pacific, having the same officers and stockholders as the rest of the concern, was really a construction company. It did the building, received the money therefor and saved to the projectors or inside stockholders all the profits that otherwise would have gone to contractors. That is to say, the money for the construction came from the bondholders in Holland but was spent by the control in America, and under the judicious arrangement the control spent the money upon itself. As it made the contracts with itself there was naturally no check upon the expenditures, some of which seem to have been of liberal nature.

Bonds had been issued and sold to the Hollanders in five successive installments as the progress of the work demanded. Early in 1872 the Hollanders seem to have become suspicious that all was not going well with the building, for they refused to buy any more

of the bonds and the work stopped. Up to this time the interest on the bonds as they matured seems to have been paid out of the proceeds of the sale of fresh bonds. When the market for fresh bonds slumped off the payment of interest ceased also. A New York firm, John S. Kennedy & Company, the head of which came afterward to play a peculiar and not edifying part in this story, was trustee for some of the bonds. It brought suit to secure payment and in August, 1873, the United States Court appointed Jesse P. Farley, an experienced railroad man of Dubuque, Iowa, to be receiver of the property.

He found it in a state of picturesque wreckage. Much of the construction had been so badly done that the line could not be operated. There was but little equipment; most of that in use was rented from another railroad.

Meantime the original projectors had stepped from under by the handy means of selling their stock.

This, I may remark in passing, is also usual in such cases.

Mr. Farley was a practical genius in railroad operation. He straightened out the line so that trains could be run, slashed expenses, boomed business, began to accumulate a surplus, used it to improve the property and made the thing go.

In 1877 while he was still receiver, the Minnesota legislature passed an act providing that if the road were not completed to a certain point within a certain time it should forfeit that part of its land grant that was within the state's control. The distance to be built was 112 miles. Farley secured from the court

authority to build this extension and to issue receiver's debentures to pay the cost thereof.

The court limited the cost to $10,000 a mile, including station buildings, grounds and equipment.

Farley put the line through and had it in operation within the specified time and expended only $9,500 a mile. Some miles he built for $8,225 each.

For the building of similar line in the old days the First Division of the St. Paul & Pacific Railroad (construction company as before noted) had charged the St. Paul & Pacific Railroad (same stockholders) $30,000 a mile.

This may throw a flood of light on the smash, the suit, the receivership and all the rest of the story.

Mr. James J. Hill had been for many years a resident of St. Paul, first as a clerk for a steamboat line and then as local freight agent for the St. Paul & Pacific. At the time of Mr. Farley's coming, Mr. Hill was an inconspicuous dealer in butter and eggs. He became well acquainted with the receiver and often discussed with him the progress of the rebuilding of the St. Paul & Pacific, in which he had a natural interest, for he had spent six years in its employ.

Mr. Farley testified afterward that in the summer of 1876 Mr. Hill came to him with a suggestion that it would be well to secure at cheap prices the bonds of the Dutch bondholders, foreclose on the defaulted interest, obtain possession of the company and reorganize it. He believed that this would be a profitable venture, or, as he himself called it, a "good speculation."

Mr. Farley thought so, too. But he said it would be necessary to get the money to buy out the Dutch

bondholders and neither he nor Mr. Hill had any means. Mr. Hill said he thought he knew where he could get the money.

Afterward Mr. Hill returned and announced that he had brought into the enterprise Commodore Norman Wolford Kittson, a St. Paul man formerly engaged in steamboating, George Stephen, manager of the Bank of Montreal, and Donald A. Smith, a former fur trader and adventurer in the wilds of the Northwest. These men were Canadians. Mr. Hill was a Canadian. None of them had any money, but Mr. Stephen, as manager of the Bank of Montreal, was in touch with moneyed men. So, to a less degree, was Mr. Smith, and these were to secure what funds should be needed. Mr. Farley understood that he was a full partner in the enterprise.

Mr. Hill's idea was to send an agent to Holland, quietly buy up the bonds and then appear in foreclosure proceedings. Mr. Farley, who as receiver knew the location of every bond, said that enough could be secured without sending to Holland.

Soon afterward the Dutch bondholders sent an agent to St. Paul to investigate the condition of the property. He came straight to Receiver Farley, who introduced him to Mr. Hill and Mr. Kittson. With these he had many conferences about the road and its state and prospects. In the end he accepted an arrangement with them by which they were to buy bonds on these terms:

For the $1,200,000 Branch Line issue of June 2, 1862, seventy-five per cent of par value.

For the $3,000,000 Main Line issue of March 1, 1864, thirty per cent of par value.

For the $2,800,000 Branch Line issue of October 1, 1865, twenty-eight per cent of par value.

For the $6,000,000 Main Line issue of July 1, 1868, thirty-five per cent of par value.

For the $15,000,000 Extension issue of April 1, 1871, thirteen and three-fourths per cent of par value.

All unpaid coupons to be included in the sales.

What induced the representative of the unfortunate Hollanders to believe that these were fair prices can only be surmised. As a matter of fact all of these bonds were worth, or should have been worth, par or near it. They were first mortages on more than 500 miles of operated and paying railroad that owned 2,586,000 acres of fertile land. On a modest computation, the land alone was worth much more than the face of the mortgage.

However the deal might have been made, it went through. Mr. Stephen stood by with enough money to secure of these bonds what were needed for the next act in the "friendly move." The St. Paul, Minneapolis & Manitoba Railroad Company was organized with Mr. Stephen as president, Kittson and Smith directors and James J. Hill as general manager, these being also the stockholders. Capital stock, $15,000,000—not one cent paid in. Foreclosure proceedings were brought, the court ordered the property to be sold to satisfy the judgment on the defaulted bonds, and on June 14, 1879, the Master in Chancery sold all of the property of the two St. Paul & Pacific Railroad Companies to the St. Paul, Minneapolis & Manitoba for $3,600,000.

Of this a small percentage, it was decreed, was to

be in cash. The rest was receiver's debentures, and the bonds.

Subsequently the receiver swore that the property thus sold for $3,600,000 was worth at that time more than $15,000,000. Still later the fact was developed that the new purchaser sold part of the land grant that it acquired with the railroad thus cheaply for $13,068,887.

The first thing the new St. Paul, Minneapolis & Manitoba Railroad Company did was to issue $8,000,000 of new bonds upon the property it had secured—conclusive evidence, if any were needed, of the bad judgment or deficient knowledge of the Dutch bondholders. With the proceeds of these new bonds Mr. Hill and his associates paid back to Mr. Stephen's friends (chiefly the Bank of Montreal) whatever funds had been advanced to secure the bonds in Holland and cleared off all other expenses involved, which were light.

The $15,000,000 of stock the four Canadians had issued they divided among themselves without paying for it. Mr. Hill, Mr. Kittson and Mr. Smith took each one-fifth. Mr. Stephen took two-fifths, one of which he was supposed to hold in trust for another person. The identity of this other person he never disclosed. Mr. Farley, the receiver, averred that there was no mystery about it for the fifth share belonged to him. From the beginning, he said, it had been agreed that he was in on the deal, share and share alike. When he had demanded what he said was his rightful one-fifth and had been refused it, he brought a suit against his four former associates in which the facts here re-

lated and many other allegations much more unpleasant were set forth.

This strange suit, which you will find fully reported as No. 287 in the October term of the Supreme Court of the United States, 1893, dragged on for thirteen years, being twice fought from St. Paul to Washington and back. You might think it of a nature to cause a national scandal, in view of the position of the receiver and the significance of his allegations. If he told the truth the romantic gentlemen from Canada were put in a light still worse and highly inconsistent with the true spirit of any other romance than that of the card-sharp. For even the most desperate devotee of railroad romanticism will hardly go so far as to admire a greasy, sinister and utterly illegal bargain with an officer of a court and a bargain that was not kept. This, of course, is the conclusion suggested by Mr. Farley's allegations. Perhaps those allegations were unfounded. Thirteen years of litigation failed to produce any definite judicial decision on this point, but it brought forth other things of almost equal value to those that believe in great fortunes "honestly acquired."

When the case was tried in the lower court, Mr. Farley took the stand and told an extraordinary and detailed narrative of the many conferences at which (he said) the plan to secure the road had been discussed, including his own share therein. He said that he was, in fact, absolutely necessary to the enterprise, because as receiver he "had knowledge not possessed by the others as to the whereabouts and situation of the bonds, their rated value by the holders, the mode whereby they could be reached and procured, the sit-

uation, amount, character, and value of the lines of railroad and other property, and in respect to the pending foreclosure suits." He quoted Kittson as insisting upon Farley's participation and refusing otherwise to join the brotherhood.

"I know nothing about a railroad and don't care to know," Kittson was alleged to have said. "Jim Hill knows nothing about the management of a railroad, and it would be folly for men to go into an enterprise of this kind even if they were successful, without some person with them with railroad ability and experience to manage the property."

On this, according to Farley's testimony, he agreed to join the enterprise if Kittson could get the money required. Kittson, Farley testified, undertook to get the money from his Canadian connections, and an agreement was made that Farley should have share and share alike with the others. On June 3, 1876, Farley wrote to John S. Barnes of New York, a member of the firm of John S. Kennedy & Co., with which he regularly coresponded, that "he (Kittson) can get the money," and on August 23rd, same year, he wrote:

"'His friend, who is expected to furnish the money, has unlimited control of Canadian politics. It might become a Canada project, but that would be a matter of no moment to you or me if we could make some money."

Here are bits of alleged conversation at the conferences taken from the testimony in the case :

Kittson—I won't have anything to do with it, unless you [Farley] are interested. We don't know anything about railroads.

Farley—I have no money, Mr. Kittson.

Kittson—We don't want you to furnish any money.

Hill—Certainly not.

Kittson—We will furnish the money.

On another occasion:

Farley—If you cannot get the Litchfield stock [in the old company], why, you will have to step into the Dutch shoes, take the place of the Dutch bondholders, and go ahead and foreclose—organize a new company, put on all the securities the property will bear, use enough of the securities to pay back the bonds cost, and the balance is profit on the thing.

Which, as we have seen, is exactly what was done.

On another occasion, according to the testimony, Farley's position as receiver was discussed.

Kittson—We will have to keep this thing to ourselves.

Hill—Certainly; it won't do to let anybody know anything about it.

Farley [to Fisher, his assistant, who participated in many of the conferences]—Now, Mr. Fisher, we will have to keep this thing perfectly quiet.

One of Farley's letters taken from the record of the case, may serve to lighten these matters with a passing ray of grim humor. It was written after the sale of the property and read thus:

"Since the election of Bigelow and Galusha as directors in the New Company, men of no Money, railroad experience or Influence, And myself left out in the cold, I am forced to the conclusion that My time and claims on the St. Paul & Pacific is Short. I did expect better things of Hill and Kittson. I had a talk with Jim Hill last knight. He disclaims any intention on his part to ignore my claim. But he is such a Lyer can't believe him. It is a matter of astonishment to every Person in St. Paul, to see the way Jim handles Mr. Stephens.

* * * You must not blame me if I should try to get even with Jim Hill before I leave here."

Mr. Farley's story was supported on the witness stand by Mr. Fisher, who, at the time he testified, was president of the St. Paul & Duluth Railroad. Mr. Kittson had died before the case came to trial, but Mr. Hill, in his testimony, denied emphatically that there had been an agreement with Farley, and that Farley had been in any way a partner in the enterprise. In this he was supported by depositions from Stephen, Smith and others. Certain letters that it was said Farley had written to John S. Kennedy in New York, letters that, according to his lawyers, would help materially to establish his case, he was not able to put in evidence because, as was asserted at the trial, Mr. Kennedy went to Switzerland when the suit was begun and remained there out of the court's jurisdiction, refusing to furnish the letters or copies thereof. Mr. Kennedy died not long ago, leaving a great fortune, much of which was bequeathed to charity, causing many enthusiastic panegyrics. In the list of his possessions, published at that time, appeared quantities of securities in what are known as the Hill properties. His name occurs frequently through this narrative; through his firm, for example, the first foreclosure suit was begun which resulted in the receivership.

The decision of the Supreme Court left these issues undecided. Justice Shiras wrote the decision, which was based solely upon Farley's failure to produce any documentary evidence of the agreement he asserted. If Mr. Kennedy had remained in this country perhaps Mr. Justice Shiras's views on this subject might have been different.

The four Canadians were thus left in undisturbed possession of the property. Whoever the fifth person may have been for whom Mr. Stephen held a share in trust, he figured no more in this story and his share was divided with the rest. Perhaps he was a dream person, or one too modest to make himself known and too hostile to money to take his part in this great Good Thing.

For Good Thing it was, beyond most records in human affairs—for those that got the profits of it. A few months before and these four men were practically without means or the prospect of fortune. Now, without the expenditure of a dollar of their own, without risk, without effort, without labor, without calculating any market or supplying any need of mankind, they had come into possession of $15,000,000 worth of railroad stock, and more than $13,000,000 worth of land formerly in the public domain, 2,580,606 acres of it.

Even this, bewildering as it seems, was not the extent of their good fortune. They had issued $8,000,000 of bonds with which to repay Mr. Stephen's friends. When they had done so and met all other expenses and bought up some odds and ends of junk railroad not included in the Dutch deal, they had left $3,620,000 of these bonds, worth in the market 104.

Total, made out of nothing with nothing, more than $23,000,000.

Compared with this the man that got up the story of Aladdin and his Wonderful Lamp was a piker. There is nothing in the fairy tales more astonishing.

By 1882 the $15,000,000 of stock, issued for nothing, was receiving 7 per cent dividends and on the market was quoted at 140.

Since 1876 the Northwestern country had been filling rapidly. As it developed, the St. Paul, Minneapolis & Manitoba Railroad issued additional bonds, extended its lines, reaped additional harvests of business and piled up the profits.

The management now began to furnish additional and convincing evidence of how far we had allowed ourselves to drift from the ancient principle of the highway.

It was taking from the enterprise every year far more than a reasonable compensation for the service it rendered in operating this highway. Instead of returning this surplus to the public to which it belonged, the management proceeded to add the surplus to the capital and then to demand (and obtain) returns on this added capital exactly as if it had been a part of the investment in the enterprise.

To secure these returns it pursued the same course that the other railroads of the country followed and are following. It increased rates, curtailed service, and held down wages.

When complaint was made of this it pointed to its capitalization and asserted that not otherwise could it secure returns upon what it was pleased to call its investment—meaning the total outstanding of its stocks and bonds.

The greater part of these stocks and bonds were not investment at all but only surplus earnings taken from the public and then converted into additional capitalization.

It may be well to run over some of these additions to capital and see exactly how they were made.

We start with the original $15,000,000 of stock (un-

paid for) that the four Canadians distributed among themselves, and the $8,000,000 of bonds with which the purchase was made.

1. An additional $8,000,000 of second mortgage bonds to provide funds for extensions and equipment. Total capitalization $31,000,000.

2. June 8, 1882, an issue of $5,000,000 of stock to stockholders at par. Market price 140. Melon for the stockholders $2,000,000. This was in effect to deprive the road of $2,000,000. If its stock would sell for 140 it should have been marketed at that price for the benefit of the property.

3. April 13, 1883, an issue of $10,000,000 of bonds bearing 6 per cent interest to stockholders at 10 cents on the dollar. This added $10,000,000 to the capitalization of the property but only $1,000,000 to its equipment or earning capacity. Every two years it caused the property to pay in interest to the stockholders more than the total amount produced by the sale of bonds. This $600,000 a year was obtained from the public by increased charges or impaired service, or from the employees by decreased wages, and could be obtained in no other way. Total capitalization now $46,000,000; total melons to Mr. Hill and his associates, $30,000,000. Total amount actually invested in the property not more than $16,000,000.

4. One year later the capitalization had become $51,368,000 without the actual investment of another dollar in the enterprise. This had been achieved by charging off surplus earnings as operating expenses, but chiefly by the purchase of the securities of other railroads.

5. By 1887 these methods had brought the capitali-

zation to $66,298,977 while surplus earnings of $3,400,000 had been set aside to be divided by means of another stock dividend as soon as the proper time should come.

6. By 1888 the management had bought with surplus earnings $11,750,000 of the securities of other railroads. These were now garnered into the capitalization by a device that ingeniously forestalled criticism. The $11,750,000 of other railroad securities were put together as a collateral trust to secure a new issue of $8,000,000 of St. Paul, Minneapolis & Manitoba 5 per cent bonds and these were distributed to St. Paul, Minneapolis & Manitoba stockholders at 75 cents on the dollar.

The market value of the bonds was par. The melon to the stockholders, therefore, was $2,000,000; the addition to the capitalization, $8,000,000; the addition to the annual interest charges that public and employees must make up, $400,000 a year; the addition to the actual investment in the actual enterprise, nothing.

The total capitalization was now $80,985,000; total melons were $32,000,000.

On this capitalization, of which not more than one-fourth could by any imagination be supposed to represent actual investment of anybody's actual money, there was being paid by means of rates levied upon the public 6 and 7 per cent dividends on the stock and 5 and 6 per cent on the bonds.

7. Even so, the returns from these rates were greater than all this fictitious capitalization could absorb and distribute. By another year there had come another accumulation of $10,000,000 of the securities

of other railroads purchased with the surplus earnings of this. To take care of this awkward situation there was organized a new corporation, the Great Northern Railway Company—as a holding concern.

In those days a "holding company" was something of a novelty in railroad operations. It has since become, by name at least, a familiar part of our transportation system. Since it neither transports anything nor helps, furthers, facilitates, supplies nor strengthens that which transports anything, its functions might seem to an outsider wholly mysterious. There need be no mystery about it. Only one task it has to perform in the railroad world. It exists to "hold" surplus earnings in one way or another so as to conceal them from the public.

The stock of the new Great Northern Railway Company was now issued to stockholders in the old St. Paul, Minneapolis & Manitoba Railroad at 50 cents on the dollar. They did not give up their old stock. They merely paid $50 and received a certificate for $100—in the preferred stock of the new concern.

Then how about the remaining $50?

That was supposed to be paid for by the accumulation of the securities of other railroads in the treasury of the St. Paul, Minneapolis & Manitoba.

We should stop for a moment to pay heed to this operation because it shows so clearly the inevitable tendency of railroad development.

These securities of other railroads had been purchased with surplus earnings of the St. Paul, Minneapolis & Manitoba. First, after all payment of reasonable compensation for service performed, and next, after all the payment of dividends on stocks and

interest on bonds that were never any part of the investment in the property, there remained great surpluses collected by excessive tolls charged to the public.

Instead of regarding these as belonging to the public the management assumed them to belong to the stockholders (chiefly themselves). They now used these surpluses to buy for themselves one-half of each share of stock in the new company.

If this surplus had been distributed to these stockholders by means of a dividend of 20 per cent instead of the regular dividend of 6 per cent all the world would have learned the facts about the extravagant earnings of this railroad and the legislatures would have passed laws reducing rates, the taxing bodies would have increased the company's taxes, the employees would have demanded increases of wages.

By shunting the excessive earnings around this winding path the public knew nothing about them and yet they were distributed none the less to the stockholders—fifty cents on each dollar of holdings.

In reality the dividends paid in 1890 were 24 per cent and in 1892 they were 28 per cent—on fictitious capital and all.

The Great Northern Company now proceeded to lease the St. Paul, Minneapolis & Manitoba at the rate of 6 per cent a year on the capital stock of more than $80,000,000. Most of these stocks were fictitious.

This annual rental of $4,800,000 became an operating charge of the Great Northern.

The next step was to issue $15,000,000 of additional collateral trust bonds, alleged to be secured by a deposit of "Pacific Extension" bonds issued some time

before by the old company and held in its treasury. These collateral trust bonds were issued to stockholders at 72½ cents on the dollar. As they were worth par in the market this melon realized $4,125,000 to the stockholders while it added $15,000,000 to the total capitalization on which tolls to the public were based.

In 1893 there was issued $5,000,000 of additional stock to stockholders at par, when the market price was 140. This was a melon of $2,000,000 to the stockholders and added $5,000,000 to the capitalization.

The road was now completed through to the Pacific Coast, the cost of building being defrayed chiefly from surplus earnings of the St. Paul, Minneapolis & Manitoba, accumulated as "secret reserves." In addition to the surplus earnings that had been swept into the capital through the purchase of other securities, and in addition to the other evidences of excessive returns, there had been gathering all this time "secret reserves" of which no one outside of the management had any knowledge. The discovery of this fact might have started a question whether any other problem of the railroad business was so troublesome as the difficulty of concealing and absorbing its extravagant profits.

The stock in the Great Northern, issued to the stockholders of the St. Paul, Minneapolis & Manitoba at 50 cents on the dollar quickly showed itself to be a valuable possession. In 1895 it paid 5 per cent dividends in addition to the 6 per cent "rental" on all the watered stock of the parent company, the interest on all watered bonds, on all the melons and "benefits" conferred on the stockholders, on all the "collateral trust

bonds," bonds issued at 10 cents on the dollar and stocks issued at nothing; on it all, the whole astonishing mass of securities created out of nothing, interest or dividends; besides a large surplus.

The annual interest on the bonds that had been issued to the stockholders as melons or "benefits" now amounted to $1,940,000. Rates were made for the public based upon this interest charge and upon others that had no better basis. Wages were held down that these charges might be met. The line remained single-tracked and by Mr. Hill's own admission the service to the public was inadequate. But all the interest charges were met.

Much more than met, as a matter of fact. It must be evident now that most of the additions to the capitalization were made not only to enrich the fortunate owners but to provide channels by which the surplus earnings might be taken up and carried off out of sight. In spite of all this ingenuity these surpluses continued to pile up in the most embarrassing way until the management was driven to the cutting of a melon of stupendous size.

Turn back for a moment to Melon No. 8 in these chronicles, the $15,000,000 of "collateral trust" bonds issued to the stockholders at 72½ cents on the dollar. These bonds, it will be remembered, were based upon the securities of other railroads bought with surplus earnings of the St. Paul, Minneapolis & Manitoba, and deposited as security for the bonds. It was now determined to redeem these bonds by exchanging them for a new issue of stock. The $15,000,000 of bonds were therefore exchanged against $25,000,000 of stock.

This seems on the face of it a remarkable transac-

tion, being the exchange of $15,000,000 for $25,000,000, and the more it is studied the more remarkable it seems. For the $15,000,000 of bonds bore interest at the rate of 4 per cent, while the $25,000,000 of new stock bore interest at the rate of 7 per cent. Good business—for the lucky bondholders. How was it done?

Dollar for dollar, so far as the bonds would go. That is to say, if a man held $10,000 of the "collateral trust bonds" he received $10,000 of the new stock issue. This left $6,600 of stock to which he was entitled. For this he paid 60 cents on the dollar and the remaining 40 cents was paid for him by the company out of more "secret reserves," surplus earnings and the accumulations of the securities of other companies that had been purchased with such earnings.

But this was not the whole of this gigantic "benefit." The 4 per cent bonds had been worth par or thereabouts. The 7 per cent stock for which they were exchanged was worth 180. Bonds worth $15,000,000 were exchanged (and exchanged in this highly advantageous way, the company bearing a large part of the purchase price) for stock worth $45,000,000.

At the lowest calculation, then, here was a melon or "benefit" worth $30,000,000—conferred out of hand on the stockholders, as you would give a cigar to a friend.

On the bonds the annual interest charges, which the public must make good in passenger and freight tolls, had been $600,000. On the stock that had taken the place of these bonds the annual interest charges, which the public must make good, were $1,750,000. Difference to the public, $1,150,000 every year.

October, 1898, saw a slight improvement upon even this ingenious method of concealing profits and increasing capitalization. The Great Northern issued to its stockholders $25,000,000 of new stock and allowed them to pay for it with $20,000,000 of old St. Paul, Minneapolis & Manitoba stock, at the rate of a share of the old for a share and a quarter of the new. As the market value of the new was 192 what they actually received was a benefit equivalent to a market value of 240.

The capital stock of the Great Northern (stock, please notice, aside from the bonds) was now $75,000,000, of which not more than $30,000,000 could by any possibility be regarded as money invested in the enterprise. The rest represented gifts, "benefits" and melons. In other words, here was at least $40,000,000 of money that according to the ancient doctrine of the highway belonged to the public. Yet behold this most astounding fact, that not only had it been taken wrongfully from the public but it had been made into a machine automatically working day and night to take more money wrongfully from the public.

It had been added to the capitalization of the enterprise.

Of the total capitalization, stocks and bonds, only 46 per cent could be construed to represent investment.

If the capitalization had been the investment and no more, rates to the public could be cut in half and wages could be almost doubled.

This is obvious. It is shown again by the fact that in spite of these repeated additions to the capitalization as channels to take up and conceal profits the

profits continued to multiply with disconcerting rapidity.

The very next year, 1899, it was necessary to issue $15,000,000 of additional stock to stockholders at par when the market value was 190, a melon of $13,500,000.

The next year this was followed with an issue of $9,000,000 stock to stockholders at par when the market value was 175, a melon of $6,750,000.

The next year there was an issue of $25,000,000 of stock to stockholders at 80 when the market value was 203, a melon of $30,750,000.

For the next three years the surplus earnings and "secret reserves" seem to have accumulated. In 1905 there was issued to stockholders at par $25,000,000 of new stock, of which the market value was 364, a melon of $41,000,000.

These four issues added $74,000,000 to the capitalization on which the public must pay, through freight and passenger tolls, the interest and dividends. They added $91,250,000 to the total of "benefits" conferred gratuitously upon the stockholders.

The next year all of them were eclipsed by an issue of $60,000,000 of additional stock to stockholders at par when the market value was 240, a melon of $84,000,000.

It soon appeared that even these great totals did not represent nor indicate the real profits of this part of the public highways. Besides the purchases of the securities of other railroad companies, this management had been quietly at work all these years buying with surplus earnings and "secret reserves" many kinds of property, including iron mines, coal mines,

steamships, wharves, lands, elevators and other things. These were held nominally by other companies of which the Great Northern owned a majority or all of the stock.

It had also been industriously but covertly at work buying stock in various railroads of the Northwest, some of them supposed to be its competitors.

It now took all of its stock investments except the railroads, consolidated them in one holding company, and then presented to the stockholders of the Great Northern certificates of shares in the new company in proportion to their holdings in the old.

There were 1,500,000 of these shares and their market value at the time of the distribution was 90. This meant that the equivalent of $135,000,000 had been distributed among those stockholders, being $135,000,000 of concealed profits of a railroad too poor to pay its just share of taxes and continually seeking to increase its rates.

Among the properties covered by this distribution were many iron mines. The ultimate value of these can only be guessed at but the guesses are very high. According to one estimate the ore deposits in these mines are worth more than one billion dollars.

If these estimates are well founded, no gold mine in the world equals the wealth that was concealed behind the purchase of bonds at a fraction of their value from the unsuspecting Dutch bondholders.

But we deal here only with certainties, not speculations. As a matter of certainty, the benefits actually and freely conferred upon these stockholders from the organization of the St. Paul, Minneapolis & Manitoba Railroad to the year 1907 totalled $379,325,000.

In addition to this huge sum there accrued to Mr. Hill and his associates certain other sources of revenue, the legitimate and sure results of these operations, and these bring the total of seventeen years' operation of this one branch of the public highways to $407,325,000 as its returns beyond a reasonable compensation for the service rendered.

Lest there should be any room for doubt that this is exactly as here stated I append two tables which contain the whole story up to 1907, thus:

TABLE OF THE FAMOUS JAMES J. HILL "WATERMELONS."

Year.	Security Issued.	What the treasury of the railroad got.	What Mr. Hill and his associates got as extra profits.
1879	St. Paul, Minneapolis & Manitoba stock, original pure water		$ 15,000,000
1882	St. Paul, Minneapolis & Manitoba stock at par market value 140..................$	5,000,000	2,000,000
1883	St. Paul, Minneapolis & Manitoba bonds at 10 cents on the dollar, par 100........	1,000,000	9,000,000
1888	St. Paul, Minneapolis & Manitoba bonds at 75, par 100	6,000,000	2,000,000
	(Reorganization Into the Great Northern as a Holding Company.)		
1890	Great Northern stocks at 50, market 71....	10,000,000	4,200.000
1892	Great Northern bonds at 72½, par 100....	10,875,000	4,125,000
1893	Great Northern stock at 100, market 140...	5,000,000	2,000,000
1898	Great Northern stock at 60, market 180....	15,000,000	30,000,000
1898	Great Northern stock in exchange for St. Paul, Minneapolis & Manitoba, market 192	....	28,000,000
1899	Great Northern stock at 100, market 190...	15,000,000	13,500,000
1899	Great Northern stock at 100, market 175...	9,000,000	6,750,000
1901	Great Northern stock at 80, market 203....	20,000,000	30,750,000
1905	Great Northern stock at 100, market 264...	25,000,000	41,000,000
1906	Great Northern stock at 100, market 240... and	60,000,000	84,000,000
1906	Ore certificates at 90......................	....	135,000,000
	Totals	$181,875,000	*$407,325,000

ACTUAL PROFITS OF THE GREAT NORTHERN RAILROAD.

Year.	Amount of Great Northern stock.	Dividends on stocks.	Interest on undervalued bonds.*	Watermelons or "benefits."	Total Returns.	Per cent.
1890...	$ 20,000,000	$ 200,000	$ 540,000	$ 4,200,000	$ 4,940,000	24.70
1891...	20,000,000	450,000	540,000	....	990,000	4.95
1892...	20,000,000	1,000,000	540,000	4,125,000	5,665,000	28.32
1893...	20,000,000	1,000,000	540,000	2,000,000	3,540,000	17.70
1894...	25,000,000	1,187,500	540,000	....	1,727,500	6.91
1895...	25,000,000	1,250,000	540,000	....	1,790,000	7.16
1896...	25,000,000	1,250,000	540,000	....	1,790,000	7.16
1897...	25,000,000	1,250,000	540,000	....	1,790,000	7.16
1898...	25,000,000	1,500,000	540,000	58,000,000	60,040,000	240.14
1899...	90,000,000	3,851,033	540,000	20,250,000	24,641,033	27.37
1900...	99,000,000	6,408,777	540,000	....	6,948,777	7.02
1901...	99,000,000	6,897,369	540,000	30,750,000	38,187,369	38.57
1902...	125,000,000	8,225,920	540,000	....	8,765,920	7.01
1903...	125,000,000	8,673,973	540,000	....	9,213,973	7.37
1904...	125,000,000	8,683,925	540,000	....	9,223,925	7.37
1905...	125,000,000	8,693,860	540,000	41,000,000	50,233,860	40.18
1906...	150,000,000	9,148,520	540,000	219,000,000	228,688,520	152.46
		$69,670,877	$9,180,000	$379,325,000	$458,175,877	

Yet even this is far from the end of the narrative. Among the railroads of which securities were bought with the surplus earnings of the Great Northern was its supposed competitor, the Northern Pacific, also a through line to the Pacific Coast. Quietly, with a total expenditure of $4,133,456, enough Northern Pacific stock was bought to give the Great Northern control, and thereafter the two roads were operated in the one interest. The operation must have been efficient, for in ten years the Northrn Pacific stock for which the Great Northern paid $4,133,456 was worth more than six times as much.

There were now two great railroad systems from which surplus earnings and "secret reserves" were to be obtained. To these resources the management added in 1905 a controlling interest in the Chicago, Burlington & Quincy, one of the most profitable railroads in the country. It was a master stroke of finance that brought this rich property into the Great Northern fold, for after enough stock had been secured to

get control of the Chicago, Burlington & Quincy, bonds were issued upon it sufficient to pay for the purchase price, bonds to be paid in twenty years from the surplus earnings of the Chicago, Burlington & Quincy itself. The plain meaning of this is that the Great Northern gets the Chicago, Burlington & Quincy for nothing.

This pregnant fact may well be brought to the sober attention of all persons that try to believe a public highway to be a private possession. For how will these bonds be paid? From tolls and charges levied upon the public. And what then is the final fact about these transactions? Nothing except that the public buys the property, gives it to the Great Northern, which makes of the machinery of the gift a means to get more money from the same public, for it is promptly made the basis for more tolls, passenger and freight.

In 1908 similar methods added to this aggregation of highways the Colorado & Southern, an important north and south system that crosses and connects nearly all the great transcontinental lines.

And was this all that this ownership had collected in these years—10,000 miles of highways, hundreds of millions of dollars of the public's money, a great machine that made profits faster than they could be concealed or distributed, a device that added other highways without expense to the projectors, the prospect of still greater dominion and greater profits and a greater machine?

By no means. There was also a power generated beyond anything ever known to kings, emperors or sultans. It was a power that chose governors and legis-

lators, sent men to Congress or defeated them, packed party conventions, chose candidates, passed laws.

It was also a power that censored, controlled or influenced the press, so that every day millions of persons read things that were not true and believed them, that the interests of this machine might be furthered and safeguarded, that more profits might be transformed into more machines to make more profits and more machines.

Under this influence a thousand newspapers published daily or weekly alleged news favorable to the railroad cause, and a large part of the public came to believe them.

When the city of Minneapolis wished to have a new railroad station instead of the rat-infested and stinking cellar it was then obliged to use, it gave a banquet to Mr. Hill and asked if it might, please, have a new station and Mr. Hill said, No.

When the city of Spokane desired some relief from the extortionate and insane freight rates that were hampering its normal growth it asked Mr. Hill and Mr. Hill said, No.

When a man wished to run for Congress he went to Mr. Hill and Mr. Hill looked him over and sized him up and said Yes, or No, as seemed to him best and most desirable.

Whatever he wished he got. Except one thing. He said a few years before his death that the railroads of the United States needed $7,000,000,000 (seven billion dollars), to put them into physical condition to meet the service needs of the country. As they could not possibly obtain this amount from private sources he

wished the government of the United States to supply them with it.

But he died too soon. If he had lived a few years longer he would have seen the government of the United States opening its treasury to repair and restore the highways of the nation wrecked and ruined after seventy years of the full swing of the idea of which Mr. Hill was so marvelous an exponent.

The idea that public highways are a private graft.

The Great Northern Company on December 31, 1920:

Capital stock, $249,478,250; bonds, $142,788,515; interest on bonds, $7,375,984; dividends on stock, $17,462,916; surplus for the year, $1,815,496.

On this capitalization put together in the way we have described, higher rates were demanded in 1920 and lower wages in 1922.

CHAPTER XI

THE READING COMPANY AND SYSTEM

The True Use of the Holding Company.

It has become common in recent years to assert that the difficulties of the American Railroads are due to two causes, the unreasonable demands of labor and the results of government operation for the period of the war.

But the railroads of America were wrecked before labor made any demand for an increase in wages and long before the government assumed their operation.

One fact alone, if there were nothing else, would show how they were wrecked.

Their capitalization has increased more rapidly than their operating revenues.

No matter what labor might do or the government, this one condition was certain to wreck them sooner or later and equally certain, while the wrecking was going on, to increase greatly the rates the public must pay for transportation.

This is to be shown more effectively by illustration than in any other way, and one of the many illustrations that reveal it convincingly is the next enterprise to be considered.

The Philadelphia & Reading Railroad was chartered in 1833 and built a line from Philadelphia to Mount Carbon in the coal region. With the development of

the anthracite business this speedily became one of the most profitable railroads in the country.

In 1871 it went into coal mining as well as coal hauling, bought (with surplus profits) 100,000 acres of coal and iron lands in the Schuylkill region and organized the Philadelphia & Reading Coal and Iron Company (having the same owners) to care for the mining end of its activities.

This purchase, even at that day, alarmed the easy-going Pensylvanians, and the same year they put into their new constitution a clause that forbade a railroad company to own more than 30,000 acres of coal land. They did not wish to be robbed of everything.

As the business and profits of the company were enormous and almost phenomenal, the fortunate owners began early to develop the first purpose of the American railroad, which, as we have seen, is to issue, juggle and manipulate securities upon which the public must pay the dividends and interest. These owners did the thing that the valet tribe so vociferously insists is perfectly legitimate; that is, they "capitalized the earning power" (to the king's taste); they "issued securities up to the true value of the enterprise"; they "capitalized the actual value of the property" until they had adorned it with a line of securities the like of which had never before been seen in this world. There was every kind of an interest-bearing document that had ever been known in high finance, and then some. Melons grew in that garden in a way that bewildered all the horticulturists of Wall Street. Whenever the dividends reached 10 per cent and left an unwieldy surplus the fortunate gentlemen brought

out a large, fresh melon or doubled the capital stock (for themselves) and began again.

Extra earnings and surpluses they invested in various properties and then issued more capitalization against such properties, accumulated thus a new surplus from the people and were ready to repeat the process; which, as it has received the approval of the entire kept press, must be unobjectionable, no matter how much it may add to the burden of the community.

For example, with surplus earnings thus acquired these gentlemen built at Port Richmond a great coal terminal, worth millions of dollars. Then against this they issued new stocks and bonds worth more than the terminal. Then they began to collect from the public on these stocks and bonds interest and dividend charges that the public is paying today, although it has already paid for that terminal thrice over.

By 1877 these agreeable processes had been carried to a point where the Philadelphia & Reading was (for the time) the most heavily-capitalized railroad in the world.

The temptation had been too great; the printing press was too handy.

Any day the directors could make fortunes by the simple, child-like operation of issuing bonds to themselves at 70, and selling the same bonds to the public at 120, receiving, with their huge returns, general plaudits as ingenious masters of financial mysteries.

The common stock was now $32,726,375, preferred $1,551,800, funded debt $65,000,000; total $99,278,175, or $303,603 a mile; a fact that caused the hardiest old financial buccaneers to mutter and stare.

But the thing had been far overdone; the printing

press had been overworked. Far too many stocks and bonds had been issued for the benefits of the Insiders and unloaded upon the innocent public.

The interest charges that had been piled up in this wild riot of black-flag finance were more than even the phenomenal earning power of the enterprise could sustain. Default followed, and on May 28, 1880, the road pased into the hands of a receiver.

But, even in its wrecked and waterlogged state, the wreckers could not leave it alone. The takings had been too goodly; the chances were too alluring. They got up a reorganization scheme by which there was plumped upon the limping concern yet another mortgage, this time for the pretended purpose of taking care of the funded debt and providing a working capital.

Besides this were added $25,000,000 of deferred income bonds that were sold to stockholders at 30 per cent of their par value.

This, adding $25,000,000 to the capitalization, already extravagant and insupportable, but only $7,500,000 to the company's treasury, may be regarded as a performance of rare hardihood.

Naturally its result was another receivership in three weeks; whereupon it was discovered that the poor old concern had a floating debt of $23,000,000.

For two years the receivers banged the helm to and fro without much progress. Whereupon the Morgan ship hove in sight and took it into port with another reorganization.

This provided for a fresh issue of capitalization as follows:

$100,000,000 new 4 per cent general mortgage bonds.
$24,410,822 1st preference income bonds.
$26,140,518 2nd preference income bonds.
$14,956,016 3rd preference income bonds.

Quite a tidy addition, as you will see.

By this juggling the old and dubious income bonds were taken care of, their holders made happy, creditors satisfied, working capital was provided, the capitalization was greatly increased, the reorganizing or remorganizing firm was abundantly profited, and a fresh burden was laid upon the ever patient public.

Thus, for five years the thing scraped along, chiseling the increased interest charges and managing to keep afloat.

Then appeared upon the financial scenes a new genius in the person of Mr. Alexander McLeod, a trust commander or fleet captain much in advance of his times. He conceived the idea of a gigantic combination to include the three great coal-carrying and coal-mining railroads—the Philadelphia & Reading, Central of New Jersey, and Lehigh Valley—to control the anthracite output, abolish competition, advance prices, increase revenues and therewith revive the printing press and issue additional securities in accordance with the first principle of American railroad business.

The three roads were duly combined, the wholesale price of coal was advanced 50 cents a ton, production was restricted in the mining region, and all looked well for Captain McLeod when the plan hit an uncharted and unsuspected reef.

The public revolted.

A fierce clamor broke out against the combination. The Attorney Generals of New Jersey and Pennsyl-

vania were compelled to take action against it, and the courts dissolved it.

The result of which was another receivership, the old hooker once more waterlogged, and the low, rakish Morgan craft *Reorganization* again bearing down upon her. This time the Morgan crew loaded upon the ship the following new issues in lieu of the old:

$114,000,000	4 per cent general mortgage bonds.
$28,000,000	1st preference 4 per cent stock.
$42,000,000	2nd preference 4 per cent stock.
$70,000,000	common stock.
Total..$254,000,000	

Of which the crew of the *Reorganization* took $4,000,000 in prize money for devising this marvelous expedient.

The rotten old stock was assessed $20,663,953 for expenses; after which it was exchanged for the new.

Total capitalization now $254,000,000. Mileage owned, about the same as in 1877, 327 miles.

But by this time the price of anthracite coal had been greatly and arbitrarily increased by the Interests that control it, which are also the Interests that control this and the other coal railroads. Because of this arbitrary and unjust increase, the profits of the Philadelphia & Reading were richly restored and refreshed. The income, thus derived directly from indefensible levies upon the public, began to rise above even the charges born by this great overcapitalization. Loaded to the guards as it was with every kind of security the printing press could turn out for the making of great private fortunes, the gigantic coal business heaped the

profits still higher, and, to conceal them and distribute them a new plan was required.

There was now organized the Philadelphia & Reading Railway Company, which took over the roadbed and track of the Philadelphia & Reading Railroad Company but not the equipment. The Philadelphia & Reading Railroad Company owned all the equipment but no roadbed nor track. By ingenious leasing back and forth between these two nominal concerns at excessive rates on excessive valuations, a deal of profits could be concealed.

A third corporation, called the Reading Company, was arranged to care for these juggles, and also for the improper coal mining and the prohibited coal lands. The state constitution still forbade a railroad company to own more than 30,000 acres of coal lands, and what are 30,000 acres to an enterprise that controls about one-third of the entire anthracite output?

Therefore Mr. Baer, the president, known in history as "Divine Right Baer," in the exercise, doubtless, of his peculiar relations with deity, had hunted the bypaths of forgotten legislation until he found the very thing for the emergency. It was a dust-covered corporation chartered in May, 1871, as the Excelsior Company, the name being changed in 1873 to the National Company. It had a charter that authorized it to do everything except hold a prayer meeting (which, in Mr. Baer's case, was plainly unnecessary), and as this charter had been granted previous to the constitution of 1871, the concern was immune against that 30,000-acre limitation.

The cheerful reorganizers from the Morgan ship got possession of this antique craft, changed its name

to the Reading Company, increased its capital stock from \$100,000 to \$40,000,000, and then to \$140,000,-000, and were thus equipped to hold coal lands as well as railroads.

Moreover, they had now an infallible device to conceal and distribute the enormous profits of the railroad.

The capital stock of the Philadelphia & Reading Railway Company, the operating concern, was now watered from \$20,589,300 to \$42,871,000—held by the Reading Company, the holding concern.

On this capital stock of \$42,871,000 the operating concern has paid to the holding concern the following dividends:

1904	8	per cent.
1905	20	" "
1906	30	" "
1907	30	" "
1908	30	" "
1909	25	" "
1910	25	" "
1911	25	" "
1911	30	" "
1912	15	" "
1913	15	" "
1914	20	" "
1915	12½	" "
1916	25	" "
1917	15	" "
1918	15	" "
1919	10	" "

For this great golden tide the Reading Company prepared the channels and canals that it might be so divided no single stream of it should look big.

Because, whereas the capital stock of the operating

company was $42,871,000, the capital stock of the holding company was $140,000,000, divided into three clases, and, besides, there were $114,000,000 of bonds to sop up the golden stream.

What is 30 per cent, therefore, on the capital stock of the operating company becames 4 or 6 per cent when it has been passed along to the holding company and split up into dividends on $140,000,000 of stock and interest on $114,000,000 of bonds.

The exact operation is here as clear as day. When the rich dividends received by the Reading Company (as a holding company) had been split into the various chanels its great capitalization provided they appeared as only 4 per cent dividends from 1904 to 1909, 6 per cent from 1909 to 1913, and 8 per cent thereafter.

From which you can see the truly beautiful functions of a Holding Company.

Meantime, even the Reading Company, the holding concern, was putting back surplus profits into the property until the analysis of Mr. John Moody showed that its real returns, on watered stock and all, were 28 per cent a year.

It is for the sake of such a shell game as this that an increase of freight rates is demanded. It is because of such financial operations as these that the maintenance expenditures are skimped, the service is inadequate, and wages must be reduced.

The reason why the dividends in the foregoing table showed a decrease after 1911 may be guessed from the fact that about that time the attention of the Department of Justice of the United States was called to this device and began suit to dissolve it.

This suit went its way for some years and in 1920 reached the Supreme Court, which on April 26 rendered a decision upholding the contention of the Department of Justice that the combination engineered by the Reading Company was in violation of the Sherman Act.

The decision, however, affects only the form of the combination, and not its essence. The form being changed to be in line with the law, the essentials of the arrangement will go on as before.

By means of a holding company profits of 28 per cent a year are made to look like 6 per cent or less and by alleging these and not the actual returns, the Interstate Commerce Commission is induced to allow an increase of freight and passenger rates and the Railroad Labor Board to decree a decrease of wages for the railroad workers.

The American Railroad as it really is.

CHAPTER XII

THE PERE MARQUETTE

A Sample of Artistic Wreckage.

In 1914 the examining engineers attached to the Interstate Commerce Commission made to that body a startling report concerning the physical condition of one of the most important railroads of the Central West.

They declared that seventy-eight miles of its line was "in bad condition and unsafe."

One stretch of track, fourteen miles long, was in a state so bad that it was operated only "under caution," and the chief operating officer admitted that it ought not to be used at all.

Some of the line was equipped with rails weighing only 60 pounds to the yard and some with rails still lighter, and a sixty-pound rail was at least twenty pounds under normal weight for the traffic the line was bearing.

Two hundred and sixty-three miles of track was reported to be "in poor condition." Thirty-four per cent of the locomotives were far below the par of efficiency.

The whole line was single tracked. The engineers did not say so, but more than a half of this line had a traffic absolutely demanding double tracks to carry it.

The railroad thus condemned was one of the chief

arteries by which food supplies were distributed to two great population centers of the interior. It traversed a region of great fertility that produced immense quantities of small fruits and vegetables for the population of Chicago. It ran through an old and well-settled country, not through a frontier. It was an old and long-established enterprise, not a recent venture in transportation.

It was doing about one-half the work it ought to do and doing that at the risk of the lives of employes and the public.

Every feature of its business situation pointed to profits. Its traffic was dense; it had short hauls; to many communities it was the only rail highway.

Yet it was broken down physically and in 1915 its financial wreck was complete when it passed into the hands of a receiver.

It had defaulted in the payments on its bonds.

For some months before that its physical condition had been so bad that with great difficulty trains made their way over certain parts of it, more than 40 per cent of the passenger trains were late, accidents were frequent. Shippers bitterly complained of the service; to travelers the name of the road became a by-word. It was the "Poor Old Marquette!"

How did all this come about? How did a great and main-traveled highway go thus to destruction?

Take note, then, of a story right to our purpose, typical, interesting, instructive.

The railroad business of today is conducted with the assistance of a large corps of press agents, publicity writers and newspaper eulogists. These assure us that railroad methods have undergone a complete

change since the wicked days of the elder Vanderbilt and his kind. Then indeed railroad exploiters performed many deeds calculated to shock a nice and refined taste, but today all this is changed. No more stock watering, no more illegality; everything now is straight, pure and righteous altogether in the management of our railroads. Men of a different class now direct and control them.

So they tell us. Yet the story of the Pere Marquette is not at all geared to these pleasing assurances. Here was a case where men of the highest standing and repute, men still honored and quoted in our gravest and best business circles, did things to a railroad that even called down the severe rebuke of the Interstate Commerce Commission—and you will admit that this is saying much.

The present Pere Marquette Company was organized in 1900. It was a combination of three companies that had long been familiar in the transportation history and troubles of Michigan—the Flint & Pere Marquette, the Detroit, Grand Rapids & Western and the Chicago & West Michigan.

Each of these concerns was in itself heavily overcapitalized. Each was carrying a huge load of stocks and bonds that represented no money ever invested in the enterprise but only deals, melons and gifts to the Insiders. The total of the three roads was $47,328,668—$22,846,500 being in stocks and $24,482,168 in bonds. It was estimated that the actual investment was less than $35,000,000 and the actual cost less than $25,000,000.

You should observe here that this actual cost is about the same as the total amount of bonds out-

standing. This is the usual condition among railroads. They are built for the bonds that are issued upon them and the stock in their capitalization is fictitious capital reserved for the profit of the projectors.

Nevertheless, such stock is included in the capitalization, where it forms part of the basis upon which rates are fixed and wages determined.

To the $20,000,000 of pure water in the capitalization of these three railroads, more was added when they came to be consolidated.

Of course. That, again, is the usual way. Every consolidation means more fictitious capital. Consolidations, it seems, cannot be effected in any other way than with water. On this occasion the total stock was increased to $28,000,000, which turned on the flood for $5,000,000.

The bonds of the three old companies were assumed by the new concern, the old capital stock was exchanged for the new, and for the time being the $5,000,000 of additional water was allowed to rest in the new concern's treasury.

For the next three years it rumbled along on about this basis.

It could not earn enough to pay dividends on its watered common stock, but it kept up the interest payments on its bonds, even after these had been increased by a new issue of $6,000,000. And now we come to the cream of the story.

Certain Boston stock operators, some of them business men of high renown, had long been hovering about the flanks of the Pere Marquette, trading in its stock and making deals with great New York speculators about it. One of them had been made a director of

the new company, when the consolidation was effected in 1900, and took an active interest in its affairs.

In December, 1902, the Boston interests made a sudden movement in Pere Marquette, appearing with enough of the stock to give the control of the road to them and their friends. With these friends they now filled a majority of the places on the board of directors and assumed entire management of the company.

They had bought the stock at 85—not a majority of it nor near a majority, but to secure 20 per cent of a railroad's stock is often enough to assume control of the whole concern—a fact that explains how thirty men in New York City can control practically the whole railroad mileage of the United States.

The new management started with a new policy. It sought to extend the road, boomed the stock and added lavishly to the bonded indebtedness.

This lasted eighteen months, and by the end of that time the Boston management had achieved something that all observers would have said offhand was imposible and not in nature.

It had paid dividends on both classes of Pere Marquette stock.

Here was something historic in High Finance—dividends on poor old Pere Marquette! Surely the new management must be composed of wizards. They made this poor old thing pay.

A thrill of joyous emotion ran through the owners that for years had been hanging to their stock certificates. The first dividend, on common August 31, 1903, at the rate of 4 per cent a year, was followed by

another on preferred in December, and on March 1, 1904, came gladder tidings of still greater joy.

A dividend had been declared at the rate of 6 per cent a year!

The railroad world looked with amazement upon these triumphs of skillful business. These, certainly, were the men that knew how to run a railroad. They produced results—and dividends.

Immediately after this astounding feat the Boston management was observed to be fostering a consolidation of the Pere Marquette with the Cincinnati, Hamilton & Dayton, that grand old piece of railroad wreckage that in a previous chapter we have examined with interest. The next thing Wall Street knew a syndicate in the Cincinnati, Hamilton & Dayton had bought the stock in the Pere Marquette held by the Boston people.

Price—125. Not bad for a stock paying 6 per cent.

An expert had examined the property and said it was good and there was the solid fact of these dividends in succession, made with apparent ease.

The Boston crowd had bought at 85 or thereabouts. It sold at 125. Also good business.

Before long it was apparent that what the Cincinnati, Hamilton & Dayton people had picked was not a railroad but a large sour lemon.

These three dividends, the only dividends in the long history of the enterprise, had not been earned. They had been paid with money obtained from these sources:

1. By shutting off the normal expenditures for maintenance and repairs until the poor old thing almost fell to pieces.

2. By expert bookkeeping.
3. By allowing current liabilities to pile up.

These three we know. It is surmised that there was still another source and that it consisted of applying to dividend payments the proceeds of the sale of securities.

From the time that these triumphs of high finance were disclosed the road ceased to perform its full functions as a common carrier. That is, it failed thenceforth to handle its traffic so as to meet the needs of the public it was chartered to serve.

I will give but one illustration of its physical decline.

In the eighteen months in which the dividends were paid scarcely any ties were replaced along the line.

The lowest average of tie renewal believd to be consistent with safety is 9 per cent a year, or every year 276 new ties to the mile.

The brilliant management that paid those dividends left the road so impoverished that for years afterward the tie renewals were far under normal, coming down to 3.8 per cent a year, or 122 new ties to the mile.

No wonder the Interstate Commerce engineers denounced this road as in inferior condition and in some places not safe.

When you have rotten ties you have stretches of track over which trains must proceed at reduced speed and you have accidents. These block the operation of the road, upset schedules and bring traffic to a halt.

Direct cause—direct result.

Gentlemen on the Inside caused the road to pay these dividends, ran the price up from 85 to 125 and sold out at a gorgeous profit.

But they left this wreck behind them for the public to stagger under, enduring bad service and high rates.

And they left these increases of capitalization, representing no investment in the enterprise, on which rates are based and wages determined.

For all of their achievements in price booming was at the expense of the capitalization of the road as well as of its physical soundness. All of it is still in the capitalization on which the Esch-Cummins bill guarantees returns at the expense of the people, the real owners of the public highways.

One of the results of the wizardry of paying unearned dividends was a receivership; that is to say, bankruptcy. Next, of course, for the desperate condition of this as of other railroad properties the press agents ingeniously blamed the workers. The workers made extortionate demands for increased pay, you know; the greedy things.

A casual inspection of the foregoing chapter of the American Railroad As It Is reveals the fact that if there had been included in the capitalization of the Pere Marquette only the money actually invested in the enterprise it could pay twice the present wage scale and yield large dividends.

In view of this fact it might be well to lay off for a time about the greedy, insatiable workers and make a few cursory remarks about the influences that were really responsible for the smash and its results.

Capitalization of the Pere Marquette on December 31, 1920:

Capital stock, $68,675,000; regular bonds, $30,455,000; equipment obligations, $9,127,520; collateral trust bonds, $5,870,000; current liabilities, $12,186,147.

Total, \$126,263,667; \$56,000 a mile. Actual investment a little more than one-half of this. It was the effort to strain out of the revenues of the road money to pay interest and dividends on the capitalization beyond the actual investment that called down the bankruptcy.

Since then a different management has been obliged to strain every resource of the property that it might restore conditions of safety, replace the ties, relay the iron, renew the equipment. The figures above quoted tell the story. Great business, no profits because of the results of these old-time financial gyrations, enforced economies, increased rates, every effort to keep down wages—it must be so. When the workers object to being made the sufferers for the exploits of High Finance and the fortune grabbers, the press denounces those workers and holds them responsible for any interruption in the transportation service.

The same press says never a word about the men and operations that wrecked the property and were the real cause of all its troubles.

Great press!

CHAPTER XIII

THE FRISCO LINES

Wreckage by Syndicates.

On May 27, 1913, receivers were appointed in the United States court for the St. Louis & San Francisco Railway.

This was a disaster even more remarkable than that of the Pere Marquette. The St. Louis & San Francisco was an even larger and more important highway. Its business and apparent prosperity were conspicuously greater. It had 7,000 miles of line and conected important centers. In fifteen years its net operating income had increased six-fold.

What was still more noteworthy, every year it had paid dividends on its stock, always promptly and at a fair rate. Railroads that can pay dividends do not usually go bankrupt.

Bankrupt, nevertheless, was this concern, and wrecked, beyond a doubt. Like the rest of the American railroad companies, it had been kiting equipment notes and had defaulted on the interest on $2,250,000 of such notes—issued June 1, 1911, for only two years.

The balance sheet also showed that it had run behind on its operation by $1,069,915. That is, its receipts, heavy as they were, had not been big enough to meet its expenses and the interest on its bonds. And still it had paid dividends.

Ever since a reorganization of the property fifteen

years before this railroad had been controlled by one group of men, which included New York bankers of great renown.

One of their policies, it appeared, had been to add to the mileage the company operated by buying up smaller roads, and it was when this practice was investigated that the reason for the ruin appeared clear—and not exhilarating.

I will give some examples. In October, 1901, a syndicate was organized to build a road called the Oklahoma & Western. Three influential officers of the St. Louis & San Francisco were in on this pool; the others were what was known as the 'Frisco crowd. They subscribed $2,148,000, of which $2,097,043 was paid in, and seventeen months later sold their railroad to their own St. Louis & San Francisco at a price that netted them a profit of $369,278.

In other words, the St. Louis & San Francisco added to its capitalization $369,279 that represented nothing but the profits of the syndicate, its own officers.

In July, 1902, a syndicate that included four officers and directors of the St. Louis & San Francisco was formed to finance the building of a railroad called the St. Louis, San Francisco & New Orleans.

Sixteen months later this syndicate was dissolved, having sold their property to the St. Louis & San Francisco, as before. They had subscribed $5,300,000. They received $5,888,888 in the 4 per cent bonds of the St. Louis, San Francisco & New Orleans and $1,060,000 of preferred stock of the same company. These securities were then refunded into security issues of the St. Louis & San Francisco on the basis of 90 for the bonds and 79 for the preferred stock.

This reaped another rich harvest for the syndicate and saddled the main company with another block of capitalization representing no investment.

In April, 1902, another syndicate of about the same composition was formed to buy the property of the St. Louis & Gulf Railroad Company. When purchased it was consolidated with another piece of junk, the St. Louis, Memphis & Southeastern, and the two sold to the St. Louis & San Francisco. The function of the syndicate seemed to have been about as important as that of a broker or real estate agent and was really less than that. The essence of the deal was that the syndicate as a syndicate sold the St. Louis & San Francisco, which they controlled, a piece of undesirable property at a high price that they had bought a short time before at a low price; and pocketed the difference.

The details of the transaction were that the syndicate received $4,920,000 of the bonds of the St. Louis & Gulf and exchanged them for 4½ per cent bonds of the St. Louis, Memphis & Southeastern on the basis of $903.33 for each $1,000 bond of the old company. The new bonds, being guaranteed by the St. Louis & San Francisco, that good old dividend payer, were sold without difficulty in New York, for $4,288,123. The syndicate had subscribed $2,100,000 for this operation. It lasted a little more than a year. When it dissolved it had made a net profit of $1,385,696 and landed another great chunk upon the capitalization of the St. Louis & San Francisco, where it remained and became with the other additions a basis for rates and wages.

The St. Louis & San Francisco could have acquired

this property without the intervention of the syndicate for one-half the sum it paid.

A syndicate was formed December 21, 1897, to "finance the construction" of the St. Louis & Oklahoma City Railroad. One million dollars was subscribed; $264,494 was paid or promised to contractors for work on the road. On April 1, 1899, the property was sold to the St. Louis & San Francisco for $1,968,700, and the syndicators reaped a neat profit of $656,150.

This gave the capitalization another boost.

On January 10, 1900, the St. Louis, Oklahoma & Southern Railroad Company made a contract with Johnson Brothers & Forsyth, railroad builders, for the construction of its line. The contractors were to receive $5,500,000 in capital stock of the company and then bonds at the rate of $22,500 a mile. Thirteen days later a syndicate of St. Louis & San Francisco Insiders agreed with the contractors to take these bonds off their hands at 78½ per cent of their par value, payment to be made as the work progressed.

The bonds were then guaranteed by the St. Louis & San Francisco.

The St. Louis & San Francisco next acquired formal possession of the St. Louis, Oklahoma & Southeastern and exchanged these bonds for its own on the basis of 95.

They had been purchased at 78½. This netted the syndicate $719,574 and boosted the capitalization another notch.

A syndicate of insiders was formed June 16, 1902, to purchase the securities of the Arkansas Valley & Western Railroad. The paid-in subscription was

$3,046,635. On March 1, 1904, the property was sold to the St. Louis & San Francisco for $3,825,000. The syndicate had incurred a total expense of $87.57, from which we may glimpse the important nature of its functions. There was to be deducted from the purchase price $215,865 due to contractors, which left a net profit to the subscribers of $589,767, having in the meantime again hoisted the capitalization. A director and five of the controlling spirits of the St. Louis & San Francisco shared in this Good Thing.

New Iberia & Northern and Iberia, St. Mary & Eastern Railroads. These lines were constructed with funds supplied by a syndicate of Insiders, who advanced $1,000,000 in cash and obtained $1,000,000 on their notes through St. Louis and New Orleans Trust companies.

There was expended on construction a little less than $2,000,000, after which the St. Louis & San Francisco bought the property for $2,495,088. The terms of the sale were such as to make a profit to the syndicate of an even $500,000—cleared in a few months. In addition to which the members retained an interest in unpaid bonuses worth about $100,000. The president of the St. Louis & San Francisco, who was one of the members, paid $190,000 for his share in the deal.

These are samples of the means by which the capitalization of the St. Louis & San Francisco was swelled. How profitable the operations were to the syndicates and how costly to the railroad may be gathered from the following summary:

Name of Railroad.	Amount of Syndicate Subscription.	Syndicate's Profit.
Oklahoma City & Western....	$ 2,097,043	$ 369,279
St. Louis, San Francisco & New Orleans	5,300,000	837,400
St. Louis & Gulf	2,700,000	1,385,696
St. Louis & Oklahoma City...	1,000,000	556,150
St. Louis, Oklahoma & Southern	3,423,432	719,574
Arkansas Valley & Western..	3,046,635	589,767
New Iberia & Northern......	2,000,000	500,000
St. Louis, Brownsville & Mexico	3,981,000	3,011,928
Colorado Southern, New Orleans & Pacific	3,000,000	375,000
Totals	$26,548,111	$8,444,796

It is thus, with other ways, that railroad capital is created and a basis reached for rates to the public and wages to the employees.

Of some of the other ways perhaps you might now like to be refreshed by a glimpse. If so, the source is handy. The St. Louis & San Francisco seems to have embraced them all.

There was in Texas a corporation called the Kirby Lumber Company that in January, 1903, gave three notes of $200,000 each to B. F. Yoakum, James Campbell and Henry Clay Pierce of the St. Louis & San Francisco Railroad Company. The railroad company next bought these notes at their face value and returned them to the lumber company as part payment for the purchase of 8,150 shares of the preferred stock of that company. What a railroad company wanted of ownership in a lumber company does not appear. It could hardly have been seeking profits, for the lum-

ber company seems never to have made any. In all the railroad company invested $1,248,750 in this stock (which seems to have been owned by Insiders) and got from it not a cent. The purchase price was added to the capital of the St. Louis & San Francisco, where it was equivalent to an annual charge upon the earnings of $50,000.

That is to say, every year $50,000 must be wrested from shippers or from employees to make up the interest on this investment. And it is thus that railroad capital is created.

In reviewing this strange incident we come upon the fact that one J. W. Bailey, of Texas, received $25,000 for negotiating the deal. The Congressional Directory shows that at this time a J. W. Bailey was a Senator of the United States from the State of Texas, where he was a popular and powerful political leader.

How $25,000 could have been earned in negotiating such a transaction is not disclosed.

In 1903 the St. Louis & San Francisco was swept into the great net that the exploiters of the Rock Island system were dragging through the southwestern railroad world. The Insiders continued to be Inside and to find their position agreeable and profitable. The Rock Island had Insiders also, but the two seemed to have worked together quite harmoniously. As for instance:

On March 30, 1907, the St. Louis & San Francisco entered into a very singular contract with the Crawford County Mining Company of Kansas by which the railroad company was made liable for any default in the interest on the mining company's bonds. There was a deficit at the rate of $27,000 a year, and the

railroad company, making this good, charged it up as operating expenses, where it appeared as the rental of a side track at the mining company's mine at Pittsburg, Kansas. If the side track had been a mile long its total value might have been one-half of the amount of this alleged annual rental.

All the capital stock of the mining company was owned by the Insiders of the Rock Island.

In 1913 the interest on the various sums taken from the railroad company by syndicate deals, discounts, investments like that in the Kirby Lumber Company, the unfortunate deal with the Chicago & Eastern Illinois, and so on, would have equaled, at 5 per cent, $3,745,550 a year.

This seems to be about 35 per cent of the company's total interest charges and furnishes valuable light upon railroad capitalization, what it is and how it is made.

To meet this condition, rates must be raised, wages must be kept down, expenditures for the upkeep of the property must be skimped. The average annual charge for maintenance of way on American railroads is $1,500 a mile. On the St. Louis & San Francisco it was only $984 a mile.

Trains were late, accidents were many, the lives of passengers and of employees were endangered. But the syndicates reaped their profits and therefore, it is to be assumed, the country was safe.

It certainly was if deals of this kind could save it. The St. Louis & San Francisco had, for instance, a peculiar contract with the American Creosoting Company for the creosoting of its ties, a thing necessary to preserve them. Twenty-eight and a half cents a

tie was the price called for in this contract. Fourteen cents a tie was the prevailing price for work of this kind. Other roads were able to get their creosoting done at that figure. But the American Creosoting Company was owned by the Insiders at that time performing their dizzy stunts with the Rock Island and controlling likewise the St. Louis & San Francisco. It was a good contract—for the Insiders. They had similar contracts with the Rock Island and the Chicago & Eastern Illinois, other roads that they controlled. These also were Good Things—for the Insiders.

Gentlemen affiliated with and interested in the St. Louis & San Francisco were also interested in the New Orleans Terminal Company, a corporation owning and operating terminals, wharves and warehouses at New Orleans. The St. Louis & San Francisco had no line into New Orleans and no use for any terminal facilities there, but it took one-half of the stock of the Terminal Company, nevertheless. By this means it was assessed $280,000 a year for the Terminal Company's interest charges and received only $50,000 a year as its share of the Terminal Company's revenues.

The next chapter in the history of this concern is so peculiar and likewise instructive that I think it is worth dwelling upon as an example of the realities of American railroad management with which newspaper eulogy is so busy.

For many years the Kansas City, Fort Scott & Memphis Railroad Company had been one of the established highways of the southwest. It was a kind of "feeder" line, feeding principally the St. Louis & San Francisco, with which it was rather allied in operation. It had never been in itself a profitable venture,

In 1900 it paid one dividend, 5 per cent on its preferred stock. Otherwise it seems to have had a barren but hopeful existence.

In 1901 some eminent gentlemen of Wall Street, some of them numbered among the Insiders of the St. Louis & San Francisco, organized a new company called the Kansas City, Fort Scott & Memphis Railway Company for the purpose of buying the Kansas City, Fort Scott & Memphis Railroad Company. Observe the distinction—Railway and Railroad. It is a difference often to be noticed in these reorganizations and sleight-of-hand feats. Often the only thing changed is this tail-end of a name. In this case the old company was Railroad and the new was Railway.

The new company proceeded to acquire the old on the basis price of $150 a share for the preferred and $100 for a share of the common—an extravagant price for stock in a company with such a record. At that time the stocks of railroads regularly paying 5 per cent dividends year in and year out were worth in the market about par, and yet the preferred stock of this unfruitful institution was reckoned in some mysterious way to be worth 150.

Meantime a syndicate of these gentlemen had secured practically all of the common and preferred stock of the old company.

The new company, the Railway Company, therefore issued to this syndicate in exchange for this old stock $11,500,000 of new mortgage bonds to be secured by the property of the old company; also to the same syndicate $13,510,000 of new preferred stock and $15,000,000 of common.

The St. Louis & San Francisco was now induced to

guarantee these mortgage bonds of the new company and to issue $13,500,000 of 4 per cent trust certificates in exchange for the new company's preferred stock. This made the syndicate practically secure. The $13,500,000 of 4 per cent trust certificates thus issued by the St. Louis & San Francisco was in effect a new issue of stock and with its guarantee of the bonds of the new company increased its own capitalization by $25,100,000.

The new issue of St. Louis & San Francisco stock and the issue of Kansas City, Fort Scott & Memphis bonds were offered to stockholders of the St. Louis & San Francisco at about 80. They took less than half. The members of the syndicate took the rest.

The new company (Kansas City, Fort Scott & Memphis Railway) then leased itself to the St. Louis & San Francisco upon terms richly profitable to the syndicate. The St. Louis & San Francisco undertook to pay the annual interest charges on the bonds of the new company (most of which the syndicate had obtained) 4 per cent on the preferred stock and all other charges.

These other charges included some exceedingly handsome commissions to the members of the syndicate, apparently to compensate them for making a deal that in itself netted them large profits. Their total commissions amounted to $494,894 and their profits on the deal to $1,783,207.

The entire time required for all these precious transactions was from June 29, when the new company was organized, to August 23, of the same year, when the lease was made to the St. Louis & San Fran-

cisco—fifty-four days. Total emoluments in that time, $2,278,301.

One gentleman, who was also a director in the St. Louis & San Francisco, secured $590,000 as his share of this Good Thing.

Yet there is a superstition abroad that the making of great wealth is difficult and strains the intellect.

Not when you are on the Inside of a railroad, certainly.

Connected with these operations was some agreement that the syndicate should build one piece of track and repair another. They did these things. So far as the Kansas City, Fort Scott & Memphis as a public highway was concerned, then, this was the total net effect of the operations of the syndicate:

The mileage of the road was increased 131 miles.

The capitalization of the road was increased $29,900,000, or $229,000 a mile for what was worth probably $20,000.

But the $29,900,000, when all was done, was added to the total capitalization of the St. Louis & San Francisco, already staggering to its fall under such additions. There it formed another reason why the roadbed could not be maintained in a state of safety, why trains were late, why rates must be advanced, why wages must be reduced.

In May, 1922, the Railroad Labor Board made an order cutting the pay of the track walkers, section hands and watchmen on this road.

No order was issued anywhere to secure the return of any part of the profits of gentlemen that by the methods here described made $2,278,301 in fifty-four days—one of them at the rate of $10,925 a day.

The track-walkers, section hands and watchmen contributed to the operation of the road and the security of the public.

The Gentlemen on the Inside contributed nothing but a load of superfluous capitalization that in the end broke the back of the enterprise.

Some of the trackmen were receiving almost $2 a day.

Do not dwell upon that fact, however, for to do so is to show that you are a demagogue, an anarchist and an Enemy of Society.

Nevertheless, if you are curious to know what this capitalization really is on which rates are based, wages determined and for the sake of which the Treasury of the United States is raided, the foregoing pages offer a fair example.

About one more such exploit proved all the poor old St. Louis & San Francisco could stand.

The Chicago & Eastern Illinois Railroad had been gradually undergoing practical absorption by the same interests that controlled and manipulated the Frisco. There were only 269 stockholders, of whom seventeen held most of the stock. In September, 1902, the two properties were consolidated on terms that seemed afterward to have been highly suspicious. The preferred stock of the Chicago & Eastern Illinois was deemed to be worth $150 a share and the common $250. In exchange for these at the prices named, the St. Louis & San Francisco issued 6 per cent preferred stock trust certificates for the preferred and 10 per cent common stock trust certificates for the common.

In other words, the St. Louis & San Francisco guaranteed 6 per cent dividends to the holders of Chicago

& Eastern Illinois preferred and 10 per cent dividends to the holders of Chicago & Eastern Illinois common, and undertook to dig both out of the operations of the road.

It was not there to be dug. The Chicago & Eastern Illinois had for three years prior to the purchase paid 6 per cent dividends on its preferred but on the common it had paid only 3½ per cent in 1899, 4½ per cent in 1900 and 5½ per cent in 1901, and the ugly fact was that these dividends had not always been earned.

The attempt to squeeze this juice out of a thing that never contained it resulted in the physical and financial wrecking of the property.

The management cut below the safety mark the expenditures for the road's upkeep. In 1901 the expenditures for maintenance of way were 21 per cent of the total and in 1913 only 16 per cent. The charge for depreciation of equipment was cut to a point where it became the joke of the railroad world. It got finally down to one-fourth of 1 per cent—which meant that the management assumed the locomotives and cars then in use would last 400 years.

The end came in May, 1913, when the poor old drained and looted thing could go no farther, and receivers were appointed for the St. Louis & San Francisco.

These endeavored to patch the wreckage together by instituting economies, increasing revenues and diminishing expenses. That meant to get the deficit out of the public on one hand and the employees on the other. There was no effort to get any of it out

of the syndicates, committees and engineers of Good Things that had brought it to wreck.

Such is the railroad of the United States, and such is its capitalization. Propaganda tells us that we must regard both as sacred.

Propaganda is a queer bird.

We used to fall for its outgivings as if they came from Sinai. We can continue to fall for them if we wish, but we are not obliged to. So far neither any law nor any decision of the Supreme Court compels us to regard the literature of the railroad press agent as of divine origin.

To show how much receiverships help the public about such things we may as well note that on May 27, 1913, when this old hulk went ashore, the total capitalization was $295,633,933, of which $51,364,100 was capital stock and $244,269,833 was bonds—piled up in the ways I have described. On December 3, 1920, the total capitalization was $340,887,692, of which $57,947,026 was capital stock and $282,940,676 was bonds.

First the capitalization is piled up to drive the ship ashore and then it is piled up again to get it off.

The interest on the bonds in 1920 amounted to $14,267,109. The total of operating and transportation expenses, of all kinds, including the pay of track walkers, section hands and watchmen, was only $31,852,973.

One-half the capitalization was fictitious, fraudulent or illegitimate.

For the profits of the syndicates and the Good Things of the Insiders rates must be raised and wages reduced.

The Hindoo looks with awe and superstitious reverence upon the White Cow, the sacred emblem of his religion.

Hitherto the railroad company has been the Sacred Cow of America.

We laugh at the Hindoo's superstition. He has much more reason to laugh at ours.

His reverence for his Cow costs him nothing. Our reverence for ours costs us billions of dollars a year.

CHAPTER XIV

THE PULLMAN COMPANY

A Story of Marvels.

One hot night in July, a few years ago, I was coming out of Oakland, California, on the Oregon Express, a far-famed triumph of railroad luxury and speed that on down-grades sometimes attains to a velocity of almost twenty-five miles an hour. As the time had not come at which one might reasonably go to bed, I was enjoying the pleasures of the standing room that the Pullman company generously allows to its guests thus situated, when the door of the car suddenly opened and a young Englishman thrust in a face strongly expressive of astonishment and dismay. He was closely followed by a young woman who, I afterward learned, was his sister, and the two were in excited conversation.

"This can't be it, you know," cried he, over his shoulder.

"It must be," says she. "There's nothing else."

"But I tell you it's impossible," says he, "quite imposible. Don't you see? It must be on ahead."

"Go on, then," says she, wearily, "but I'll wager I'm right and this is it."

They pushed on down the aisle, where the facile George was adjusting the last curtain over the last luxurious couch provided by the benevolent corporation that he serves for a pittance a month.

In a few minutes the two returned, evidently still more perplexed, and the young man said to me:

"Can you tell me where the sleeping cars are?"

"This is one of them," said I.

"What! This?"

"Yes."

"A sleeping car?"

"Yes."

"And are they all like this?"

"As like as peas."

The young man stood for a moment as one whose mind gropes and staggers amid the falling of incredible mysteries. Then he shook his head slowly and said with an air of profoundest conviction:

"Rummy train! Rum-my train!"

He asked me where people slept on what he was pleased to call "this singular contrivance," and I inducted him into the arcana of the shelf upon which the Pullman company allows us to recline. He asked—ah—how—ah—in fact, how did one disrobe, so to speak. I said that the practice was for one to stand in the aisle and denude oneself until one's sense of decency would endure no more and then to finish the job in one's berth. He looked upon all this as one in whom hope was extinct and then said:

"Good Ged! O Good Ged!"

The next morning he made his way, pale and distraught, into the wash-room, where he joined the line of thirteen free-born Americans that were waiting for a chance at the common washbowl in which they hoped eventually to slop around and make a noise like one performing ablutions. While he waited, with objurgations loud and deep he related his experiences.

It appeared that he and his sister had traveled from England to Buenos Ayres, thence by the new trans-Andean line to Chile and so north by steamer to San Francisco. He had known sleeping cars in his own country, and on the continent of Europe and in South America, but this was his first experience of our palatial contraptions that bear that name, and his candid opinion of them seemed to choke his utterances and threaten him with apoplexy. He described his attempts to unclothe himself on the downy couch that for the modest sum of $9.50 he had rented from the Pullman concern. Following my directions, he had stood in the aisle and unmade his toilet until he felt he could no longer compromise with modesty, after which he essayed the rest behind the uncertain protection of the curtain. The chief difficulty was his nether garments, so to speak. First he lay on his back and, elevating his feet, tried to yank his trousers heelward. Then he sat up and tried to work them off by degrees, like a man skinning a rabbit. Then he arched himself on the back of his neck and his heels. Then he tried one leg at a time, lying first on one side and then on the other. Finally, when he had scattered the contents of his pockets all about the berth, and worked himself into a rage and a dripping perspiration, he succeeded in getting out of his trousers and was so exhausted and breathless that he stopped with this achievement and tried to sleep.

Judging from his account, it must have been an interesting night for him. Of course, not being provided with a jimmy, a crowbar and a stump-puller, he could not get the window open. The temperature in the Sacramento valley was fiercely torrid; the car was

suffocating; and his poignant misery was in no way relieved by the sharp contrasts in his mind between what is called a sleeping car on the pampas of South America and what is called a sleeping car in the United States.

I suppose I hardly need to say that in these comparisons the state of civilization and the prevailing standard of common decency in my native land suffered greatly. They always do when foreigners acquire a good, competent notion of our sleeping car system and its complex and manifold barbarities.

As a rule, nothing else observed of us by our visitor from abroad creates such an unfavorable impression; even our most sympathetic critic cannot overlook such a significance. Let's be frank and own the disgraceful fact. It is not merely that the American sleeping car is uncomfortable and extortionate; it is so indecent, primitive, rural and jay that our mere tolerance of a device involving such publicities and promiscuities is a reflection on our place among the civilized nations. In a mining camp or on a wild western cattle ranch a man may endure the necessity of unclothing himself in public, but we ought to have passed long ago from the mining camp stage of evolution, and even in a mining camp no such indignities would be allowed as the American sleeping car puts upon women.

Nowhere else in the world is a woman compelled to retire with no more privacy than the shelter of the same curtain that also conceals a man most often a stranger to her. Nowhere else is she expected to parade half-clad before a car-full of men as she struggles to get to a dressing-room overcrowded and filthy.

The whole thing is an abomination. It is as much a

monstrous parody upon comfort as it is upon the basic requirements of civilized life. In winter you lie in your berth and fry upon a gridiron composed of the infernal steam-pipes beneath. In summer, if by any possibility you can jimmy a window you half-smother in dust and cinders. The mattresses are apparently stuffed with concrete; the pillows contain croquet balls; the highly suspicious blankets seem to be made of wood. The ventilation is invariably atrocious and cannot be otherwise. In the morning with fourteen other unfortunates you share a wash-bowl in a state to produce nausea in every beholder.

You have paid a high price and had for it the privilege of reclining certain hours upon a kind of barbarous shelf.

Why do we have these things? Other nations do not. Why are we singled out for an affliction so gross and humiliating?

The American sleeping car was devised about sixty years ago, when much of our civilization was of the mining camp order. It was a mere makeshift and temporary convenience. On night trains railroad passengers had been accustomed to sit out the weary hours in helpless misery. Here was a crude device to enable them to recline. You turned two car seats so they faced each other. Then you drew forward the bottom cushions and slid downward the back cushions and you had a kind of a couch. It wasn't a bed; it was just a rude contrivance on which one could lie for a few hours of troubled rest. That was all. In the beginning and for many years afterward, nobody undressed in a sleeping car berth. Passengers merely reclined there instead of sitting up.

After sixty years this primitive and wretched makeshift remains among us unchanged. Other nations have sleeping cars that provide not only comfort, but privacy and decency. We alone continue to go to bed in public after the manner of the mining camp.

And the reason for this strange fact is still stranger.

We have these old torturing and abominable things, with their beds of concrete and all the rest of their atrocities, because they are an integral part of the railroad flim-flam to which we have submitted with such phenomenal patience all these years. We have them because certain gentlemen have succeeded with them in eclipsing all records in the trick that has piled the great fortunes and impoverished the masses.

They have Capitalized the Patience of the American People.

A corporation called the Pullman Company has exclusive contracts with most of the railroads of this country to furnish a sleeping car service.

The Pullman Company owns the cars. The railroad companies haul them to and fro. They are very heavy cars. They grind the tracks; they strain the bridges; they cost much in fuel. The railroad companies haul them, heat them, to some extent repair them, sometimes light them, and employ clerks to sell the tickets for them. And they do all this that the Pullman Company may gather unexampled profits from a very bad service. And still certain minds among us assure us that the private management of our public utilities represents the summit of efficiency, economy, and public welfare.

These are but glimpses at the activities of this marvelous concern. No other such gouging, profit-mak-

ing, money-grubbing institution exists in all this world. The full story of its impudent career reads like some romance of imaginary imposture, reveals us as nationally duplicating the exploits of Simple Simon or Goldsmith's Moses at the Fair, and suggests as an appropriate national emblem the Woolly Horse.

Some of the overshadowing and menacing fortunes of our happy land have been optimistically excused on the supposition of some invention or improvement or some service to mankind. No beaming optimist can imagine any such excuse in the Pullman story. It is just plain bunk. George M. Pullman never invented the sleeping car nor the berth in it nor anything else, and of course he never created anything. The idea of collapsing two car seats into a couch was first hit upon by a poor carpenter in Chicago, who died penniless and unknown. Pullman surmised that under certain conditions and with a certain kind of co-operation of which you are to hear later, the thing might be made to pay well, and he organized a company with $100,000 capital to operate cars with these collapsible seats. That was all.

Out of this investment and out of what Samuel Hopkins Adams calls the "cynical tolerance of this public" has grown a corporation with $120,000,000 of capital that has made more money on a smaller service rendered and more money on a smaller risk and a smaller original capital than any other corporation that ever existed.

From the beginning there was no reason on earth for this corporation, since no reason existed why railroads should not operate cars for people to recline in exactly as they operated cars for people to sit up in.

To overcome this natural difficulty that confronted the business at the outset, influential railroad directors were enabled to possess, on very attractive terms, certain quantities of sleeping car stock. After that the sleeping car company found it easy to make exclusive contracts with the railroads in which these directors were influential.

In blunt words, the thing was graft, pure and simple. It was like the express companies, only worse. It was like the old Red Line and Blue Line and White Line, the old fast freight artifices that used so to thrive until public attention caused them to dry up and blow away. It was like the Melon Graft and the Leasing Game and the Reorganization Trick. It was chiefly a device by which the public could be compelled to pay more money that could be quietly and under a convenient disguise diverted into the coffers of the Gentlemen on the Inside.

The sleeping car increased the toll collected; the distribution of stock assured the Gentlemen that the increased toll should take the proper direction.

At first and for many years these contracts made in this way were of the most extraordinary character. The railroads not only hauled the cars for nothing, but they actually paid for the privilege. They paid 4 cents a mile for hauling a sleeping car and 3 cents a mile for hauling a parlor car. The railroads received no revenue from these cars, but the directors that made the contracts received much.

The Pullman Palace Car Company, the original of the present concern, was incorporated in Illinois in 1867, and for the next eight years operated discreetly without leaving any public record of its skillful work.

In 1875 it was for the first time obliged to file a statement about itself, and even then the information was meager. But in 1879 it came coyly into the limelight and the fact was disclosed that it had by that time a capital stock of $5,938,200, on which 8 per cent dividends were being paid. How much of this capital stock represented anything more than graft, gratitude and good wishes, nobody knew, but the actual investment represented was plainly small. In 1875 and again in 1878 the company had redeemed from earnings bonds amounting in all to $875,000, which would indicate that beside making 8 per cent dividends the company was piling up an annual surplus of a commanding size, which, indeed, has been its practice ever since.

1881. A new stock issue of $2,000,000 at par to stockholders. Market price, 145. Melon, $900,000. And the dividend that year was 9½ per cent. Foresight is indeed a great thing. Some of these directors that had presents of stock plunked down upon them were almost sure they had a good thing, and now you see they were right.

1883. Issued $1,326,000 of new stock at par to stockholders. Market price, 126. Melon, $344,760.

Later in the same year issued $1,327,000 of new stock at par to stockholders. Market price, 117. Melon, $225,000.

No question that this was a Good Thing.

1886. Got $1,067,412 for its holdings of West Shore securities, which it had bought from earnings, and gathered in $1,500,000 of bright new bonds issued for car equipment by various railroads, showing us

where the money goes that we pay in interest on these equipment trust notes.

1887. Issued $4,000,000 of new stock to stockholders at par. Market price, 159. Melon, $2,360,000. Speaking of Good Things, this would seem to be without a flaw.

1889. The Pullman Palace Car Company now took over all of the other sleeping car companies in the country, except the Wagner (Vanderbilt concern), and issued $5,000,000 of new stock to stockholders at par. Market price, 200. Melon, $5,000,000; or as much as the stock itself.

All these years the company was paying from 8 to 9½ per cent a year in cash dividends.

To these years also belongs an odd little incident that may illustrate what this enterprise really is.

One of the companies absorbed (at public expense), as above noted, was the Mann Boudoir Car Company, which operated the only sane and reasonable sleeping car that had ever been used on American railroads. Its inventor recognized some of the foundations of a state of civilization by providing closed compartments instead of open berths. The introduction threatened the Pullman supremacy because if the public once became aware of the advantages of the Mann car it would, in all probability, never again be satisfied with the hot gridirons and poor crudities of Pullman. When the consolidation took place, therefore, the Mann cars were withdrawn.

The railroads of New South Wales, in Australia, are owned by the state, and not long after this the government of New South Wales was looking about for a service of sleeping cars. Its agents came to America

and bought up all the Mann cars, and, as these were not enough for the requirements, also bought several cars of the regular Pullman pattern. These were shipped to Sydney and put into operation, both styles.

But the Australian people made such savage complaint about the indecencies and discomforts of the regular Pullman cars that after a short time the government withdrew them and rebuilt them after the Mann pattern. And today an American traveling in Australia may ride in the comfortable and convenient sleepers that were built for his own country and shipped hence because they threatened to interfere with the graft of the Pullman Company and its great dividends paid on watered stocks.

1891. Issued $5,000,000 of new stock at par to stockholders. Market price, 196. Melon, $4,800,000.

1893. Issued $6,000,000 of new stock at par to stockholders. Market price, 200. Melon, $6,000,000.

This brought the total capitalization to $36,000,000 and marked the last occasion on which any money was to be paid into the concern for any stock issue. In eighteen years melons (that we know of) had been cut for the fortunate stockholders to the amount of $20,508,000 and meantime no year had passed without its 8 per cent dividends.

1894. And now the gracious prospect was suddenly clouded from an unexpected quarter. Year in and year out the workers that had built the cars, made possible all the melons, and created all the wealth, had gone along and gathered from the enterprise just enough to keep them alive and had made no complaint. They now manifested themselves in a way that com-

pelled attention, and out of their protests came one of the historic industrial uprisings of America.

To make this clear, I must diverge a little from due chronological order.

The Pullman company had early begun to manufacture its own cars. After a time, as its capital swelled and its profits piled up, it was driven to wider activities and began to manufacture cars of all kinds for other concerns. To this end it bought a great tract of land in what is now the southern part of the city of Chicago and established there around a great factory the famous model town of Pullman, where philanthropy and dividends went hand in hand to an extent seldom seen elsewhere.

Mr. Pullman, desiring to show to the world that he was indeed a kind and indulgent employer, provided for the "hands" of the company a library, a theater, and other attractions to which persons of his class pointed with swelling pride. Meantime the company trimmed these "hands" to the king's taste. Practically speaking, they could live only in the houses that the kind, indulgent company had erected for them so badly that the roofs leaked and the door posts fell apart. These abodes were rented at extremely profitable rates. The "hands" also obtained of the company their gas and water, and in effect about everything else that they bought, and all this offered a field for business advantage of which the kind, indulgent company cheerfully availed itself, to the benefit of the melon patch, the dividends, and the building of their own gracious residences in a style quite different.

In the midst of this goodly business, when the company was operating one of the best melon gardens in

the world (up to that time) and had a surplus of $25,-791,645 ready to divide among its stockholders, it announced that because of the hard times following the panic of 1893 changes equivalent to reductions in wages were imperative.

Whereupon a strike followed. The employees felt that a reduction of wages in addition to all the other impositions practised upon them, was more than they, as good, patient Americans, were called upon to endure.

This was received by Mr. Pullman and his caste as conclusive evidence of the ingratitude of the working class.

They had not counted upon some other results of this strike.. There was in existence at that time a remarkable organization called the American Railway Union and to support the strike of the insurgent Pullman "hands" this union declared a strike upon every railroad that hauled Pullman cars. Two hundred thousand railroad workers responded to the call, and before they could be defeated and driven back to their work it was necessary for President Cleveland to call out the United States troops (against the protest of the Governor of Illinois) and for agents of the railroad companies to burn some scores of freight cars that public opinion might condemn the strikers for acts of violence they never committed.

This was not all. The strike disclosed the facts about the model town of loot, and the attorney-general of Illinois brought suit to determine by what right the Pullman Company was also a landlord and a gas factory and a waterworks and several other things essential to its plans of charitable thrift in the model

town. The eventual result of which was a decision that the company had no such rights, the loss of the humane gouging apparatus at lovely Pullman, and sterile years in the melon patch from which the poor but deserving stockholders had carried such luscious fruit.

1898. All was by this time well once more with this famous enterprise. A surplus of more than $25,000,000 had been accumulated and the company now proceeded to distribute it among the stockholders by declaring first a cash dividend of 20 per cent in addition to the regular dividend of 8 per cent, and then a stock dividend of 50 per cent.

The cash dividend took care of $7,200,000 of the surplus and the stock dividend consumed $18,000,000.

This brought the capital stock up to $54,000,000.

The stock dividend had still another purpose than the distributing of the surplus.

For some years now the sleeping car business of the country had been possessed chiefly by two companies. A few railroads like the Chicago, Milwaukee & St. Paul and the Great Northern operated their own cars for night use as well as day, but the rest were paying tribute to either Pullman or Wagner. The Pullman was now owned largely by Marshall Field and other Western Interests. The Wagner was an instrument of the Vanderbilts and served as one of the means by which they concealed and gathered the egregious profits of the New York Central system. Both companies existed for no purpose or reason except as parasites upon railroad operation to absorb railroad income. The few railroads that were outside of the influence of the Pullman and Wagner graft were daily demon-

strating that a railroad could operate its own sleeping cars much better than an outside corporation could operate them, but the significance of this demonstration passed unheeded by the public that eventually paid the graft.

Talk of the consolidating of the Pullman and Wagner concerns had been going on for years. Competition between them, at one time strong, had come to an end. In earlier years, George M. Pullman had heavily backed the West Shore Railroad as a means of breaking the Vanderbilt monopoly and putting his cars into competition with the Wagner cars between Chicago and New York, but thereafter the fields of the two corporations became well defined and they went forth in harmony to pluck the public.

But as the great Interests back of each were steadily drawing together, consolidation was seen to be inevitable, and both began early to prepare for it. The Wagner was organized (for purposes of safety in its operations) as a voluntary association under the laws of New York. It had $13,000,000 of capital stock on which were no quotations as none of it was in the market; it was paying 8 per cent dividends, the same rate that the Pullman paid.

As a preliminary step to consolidation, the Wagner company issued first, $6,000,000 of additional stock to its stockholders at 30. This stock was worth at least 175; therefore this was a melon worth $8,700,000 and equivalent to voting that sum into the pockets of the Vanderbilts. A little later came an additional issue of $1,000,000, for which it appears nothing was paid.

This brought the capitalization of the Wagner up to

$20,000,000 on which dividends continued to be paid at the rate of 8 per cent yearly.

Meantime, as we have seen, the Pullman artists on their side had not been idle. In preparation for the consolidation deal they had been issuing water until they had brought their capitalization up to $54,000,000.

On this watered capital the Pullman dividend, "in deference to public opinion," was reduced from 8 to 6 per cent.

"Public opinion" must have been a powerful old girl in those days. At 8 per cent on $36,000,000, the old capital, the total dividend would have been $2,880,000 and at 6 per cent on $54,000,000, the new capital, the total dividend was $3,240,000. But powerful as "public opinion" is thus shown to be, its influence lasted but a year, after which the old rate of 8 per cent was resumed.

All was now ready for the consolidation deal, and in 1899 the directors of the two companies voted it and the glad stockholders ratified it (as well they might), with pleasure upon their countenances. The thing was simple as well as efficacious. The Pullman Company merely issued $20,000,000 of additional stock and exchanged it dollar for dollar for the $20,000,000 to which the Wagner capitalization had been so successfully watered.

This brought the Pullman capitalization to $74,000,000.

The name of the consolidated company was now changed to the Pullman Company.

This happened with the end of 1899 and the new concern started in to do business—and the people.

By 1905, that is to say, in five years, by diligent application to this occupation and the principles of success, the company after paying annual dividends of 8 per cent on all this watered stock, had accumulated a surplus of $22,151,946. One year later this had become $27,122,020, showing that the surplus was accumulating at the rate of $5,000,000 a year, which was equal to about 10 per cent on all the money even pretended to have been paid into the concern, to say nothing of the 8 per cent dividends upon a capitalization more than half of which was pure water.

But as I have labored to show in a fore-going chapter, a surplus may be an embarrassing thing if it is allowed to go too far. Reason in all things is a maxim that applies even to surpluses gouged from the public. To take care of this surplus, the company voted on November 14, 1906, a stock dividend of 36 per cent, in addition to the regular cash dividend of 8 per cent.

This watered the stock by $26,000,000 to $100,000,000.

On this capitalization, about three-fourths of which was limpid water, the company continued to pay 8 per cent dividends and to accumulate a surplus as before.

If one man had owned the entire concern from the beginning his annual income from it would now be greater than all the money he ever invested in it.

In the next four years the surplus had reappeared and grown to about $20,000,000, showing that in spite of the increase in the capital stock, the earnings of the concern were still running ahead of the dividends at about the same old rate of $5,000,000 a year.

On March 21, 1910, a new stock dividend of 20 per cent was announced, to take up the accumulated sur-

plus. In addition to the usual 8 per cent cash dividend.

This brought the capitalization to $120,000,000 and it may be doubted if as much as $20,000,000 of this represented anything but water.

In nineteen years the Pullman company had distributed among its stockholders $64,000,000 in stock dividends and paid 8 per cent a year in cash even on these stupendous waterings. Counting cash dividends and all, this is at the rate of 17½ per cent a year on the capital as it was in 1893 and without considering the fact that what was 8 per cent in 1893 was 24 per cent in 1912. And since 1893 not one cent had been invested in the enterprise.

In 1893 the annual amount that must be wrung from the public to make up the dividends was $2,880,000. In 1912 it was $9,600,000. And not a cent invested meanwhile.

On the other side of this account the public has had all these years, the most abominable and indecent transportation service in the world.

Suppose that from the beginning there had been in this instance also a reduction of rates, step by step, as the profits went beyond a reasonable compensation for the service performed.

Our sleeping car service would look very different today, wouldn't it?

Between Chicago and New York you could have a room to yourself with a bed instead of a shelf and with full toilet accessories, and you could have it for $3 instead of the $9 that you now pay for misery and the gridiron. And the company could furnish these and provide steel cars and still pay 10 per cent dividends

on the watered capitalization of 1893, equal probably to 35 per cent dividends on all the money ever invested in the enterprise.

For the fact that you do not have the comfort and you do have the misery and the imposition is no explanation except the golden palaces of the gentlemen that own this wonderful money mill. For the sake of their private fortunes and for nothing else you endure the tortures of the grilling shelf, attempt the weird athletic feat of dressing while lying down, stand in line at the wash bowl, and pant and gasp all night in the vitiated atmosphere of a close sealed cave.

The true function of the Pullman Company, however, should not be overlooked. It is not to provide us with facilities for repose on our journeyings, which it does badly, but to furnish additional means to conceal railroad profits, and this it does remarkably well, as the foregoing facts will be found to demonstrate.

CHAPTER XV

THE INCIDENTALS OF CAPITAL MAKING

A. The Hocking Valley Case.

We neeed not hesitate to believe that such performances as we have been studying in the History of the American Railroad are morally wrong, no matter whose fortune they may build up nor with what face they may be carried off.

The courts have said so whenever they had a chance. Custom has made Wall Street indifferent, as a rule, to the manner in which wealth is had. To Get It is the main thing. Yet there are railroad deals of this character at which even Wall Streeet, in its cynical cold way, has muttered protest.

Such an instance we are now about to relate. Also as another illustration of the true nature of the railroad capitalization of the United States on which dividends and interest must be provided by freight and passenger rates and by keeping down the wages of employees.

I suppose few of us whose memories go back so far will need to be told that twenty-five years ago the railroad system of the United States, which is now controlled by a few men, consisted of hundreds of separate properties, some of them exceedingly small and quite independent.

Three of these little lines, the Columbus & Hocking

Valley, the Columbus & Toledo, and the Ohio & West Virginia, existed in 1881 in the coal region of Ohio.

Henry B. Payne, Chauncey H. Andrews, Jeptha H. Wade, and three other Ohio capitalists united with one Stevenson Burke in a scheme to combine and possess these properties—and others. Henry B. Payne was one of the controlling powers in the Standard Oil Company, from which he had drawn a large fortune, and was the father-in-law of William C. Whitney. He has also a kind of fame in Ohio and elsewhere, through the charge brought against him that he purchased his seat in the United States Senate, and for other reasons not necessary to discuss here. The other members of the pool were rich, but not so rich as Mr. Payne.

Included in the property of the three little railroads were some coal lands, and coal lands are always good to have. The gentlemen of this pool earnestly desired to have the coal lands as well as the railroads. Presently they found themselves in possession of the coal lands, the railroads, and other good and valuable things, and without expending a cent therefor, or performing any labor, or making any effort, or returning any equivalent, and yet without risking the penitentiary.

First, the seven eminent gentlemen forming the pool executed twenty-four separate notes, aggregating $6,000,000. These notes Mr. Burke took to New York, where they were discounted by the banking firm of Winslow, Lanier & Co. acting with Drexel, Morgan & Co. and the Central Trust Company. With the funds thus secured the pool bought the three little railroads and the coal lands appertaining thereto,

The railroads they consolidated into the Columbus, Hocking Valley & Toledo, a name long and odorously familiar in railroad history, and the coal lands they reserved for other purposes.

Having thus secured control of the property, the gentlemen issued upon it $14,500,000 of 5 per cent bonds, whereof it was announced that $6,500,000 were required to take up the outstanding obligations of the three little roads, and the remaining $8,000,000 were to be used for needed improvements, such as laying double track and increasing the equipment. At least this was the plain declaration of the resolutions of the directors authorizing the bonds and of the mortgage on which the bonds were based. Of the $14,500,000 bonds thus issued, $6,500,000 were duly used to pay off the existing obligations of the three little roads, but for a good and sufficient reason there was no double-tracking, there were no other improvements.

The gentlemen in the pool had utilized the coal lands that went with their purchase to organize another corporation—the Continental Coal Company. They now exchanged the stock of the Continental Coal Company for the $8,000,000 that still remained of the newly issued Columbus, Hocking Valley & Toledo bonds. With $6,000,000 of the bonds thus secured, they paid off the twenty-four original notes that had been discounted by Winslow, Lanier & Co., Drexel, Morgan & Co., and the Central Trust Company. There was left $2,000,000 of the bonds, which they divided among themselves.

Their balance-sheet then showed an investment of nothing, capital nothing, expenditure nothing; net profits, a railroad system and $2,000,000—which

might be termed fairly remunerative work and shows how liberally we Reward Industry. Net profits, $2,000,000 and a railroad, for the labor of signing twenty-four pieces of paper. But perhaps this seems to you an excessive guerdon for the toil involved. In that case I invite you to consider what the railroad press agent calls the Services to Society, which will presently, I hope, be apparent.

The next chapter of the story introduces two additional characters. So evanescent is the glory of politics that I suppose not many men can now of a sudden find in their memories the face and fame of James J. Belden, of Syracuse; yet of old time he was a great figure in New York State and national politics and in that peculiar and unillumined borderland where politics and business fare hand in hand. "Jim" Belden, he was called; a smooth, suave, resourceful gentleman of a varied, sometimes picturesque, and usually successful career.

Mr. Thomas F. Ryan of Wall Street knew him well and he knew Mr. Ryan; they had reason to know each other, having some interests in common and very likely some sympathetic views. In 1889, it occurred to one of them, which one I do not know, that all the good things were not exhausted from Columbus, Hocking Valley & Toledo. Wall Street knew pretty well the operations of the Burke Syndicate and generally believed them to be questionable. Not because they differred in their essence from one hundred similar transactions by which great fortunes had been built, but because in this instance the thing had been done too boldly and with a brutal candor repulsive to good taste. Wall Street did not interfere with the achievement,

because such is not its way, but it held the game to have gone too far and to be subject to investigation by the courts. Mr. Ryan and Mr. Belden must have become inoculated with this view. Mr. Belden went out into the Street and bought $50,000 of the Columbus, Hocking Valley & Toledo bonds.

Then he suddenly brought suit against Stevenson Burke, Winslow, Lanier & Co., Drexel, Morgan & Co., the Central Trust Company and others to compel the return to the railroad's treasury of the $8,000,000 in bonds that had gone to pay off the syndicate's twenty-four notes and had otherwise been used for the benefit of the pool.

In advance of the bringing of this suit, Mr. Ryan had gathered all his available means, and very quietly, as was his wont, he had laid in the stock of the railroad. It looked like a Good Thing, because there was no doubt that the original transaction was essentially dishonest, and if the courts should so decide, the $8,000,000 would have to be returned to the treasury of the Columbus, Hocking Valley & Toledo (where it was badly needed), and the stock of that railroad would certainly go soaring. At the time the stock was inert and the price very low, for the load of bonds placed on the property by the Payne-Burke pool had almost broken the road's back, and all it could squeeze, gouge, and trick from the patient public (which in every case pays for these amusements) could hardly provide the fixed charges. So with cheerful heart, no doubt, Mr. Ryan bought heavily. So did Mr. Belden—quietly, always quietly.

Winslow, Lanier & Co. bitterly fought the suit. On each side was a great array of counsel. After pro-

found argument, Judge Ingraham, who heard the suit, rendered a decision that, while not regarded as determining definitely all the points at issue, ruled essentially against Belden and Ryan. The ground on which Judge Ingraham based his decision was chiefly this, that the money the plaintiff sought to recover had never been in the possession of the railroad company, but had been appropriated by certain members of the pool to their own uses. Hence it was not covered by the mortgage and hence it was no concern of Belden's, whose claim was based upon the mortgage and upon nothing else.

On appeal from this finding, the old General Term Supreme Court, State of New York, practically sustained Judge Ingraham, though it severely denounced the actions of Burke and his associates. It excluded from any liability the banking firms from which Belden and Ryan expected to recover and restricted their action to Stevenson and Burke, who probably had no such sum of money.

The case then went to the Court of Appeals.

But now a very strange thing happened and one for which there has never been any adequate explanation. To this day it remains among the historic mysteries of High Finance. Just before the Court of Appeals handed down its decision in the case, there came secretly from Albany a definite rumor that the findings below would be reversed and that the majority opinion would be for Belden—and Ryan. I may say that it is not usual for advance information to leak out concerning a decision by the Court of Appeals of the State of New York; not usual and not proper. As a rule, the decisions of this, the most solemn and august court in

the State, are an inviolable secret until they are officially promulgated. But in this case Mr. Ryan seems to have believed that he had news of the impending decision, news that he, most careful and deliberate of men, felt that he could not doubt; and thus secure in his ability, energy, and foresight, he bought more and more of the stock, standing to make enormous profits on the advance that was to be.

But when the decision came out, lo, it was against him! That Burke and his companions had looted the Columbus, Hocking Valley & Toledo of $8,000,000 of bonds the decision clearly admitted; but it held that since Belden had bought his bonds with a full knowledge of all the facts, and subsequent thereto, and had bought them for the sole purpose of bringing the suit, he was not entitled to recover. Somebody else might be so entitled, but not Belden.

Something about the decision always seemed baffling and unsatisfactory. It was not signed by all the judges and a story was circulated and eventually printed that the judgment handed down was not the judgment of the majority, that the advance report Mr. Ryan received of the decision was at the time well-founded, and that the opinion rendered was really the opinion of a dissenting minority of the court.

All this helped Mr. Ryan nothing. His ability, energy, and foresight had gone astray; there was no rise of Columbus, Hocking Valley & Toledo stock, no magnificent coup, no millions seized in a day. On the contrary, he saw the ship of his fortunes driving toward a lee shore, and it was only by a changing wind that he could work off.

As to the plundered Columbus, Hocking Valley &

Toledo, according to all precedent and all the logic of the situation, that, being a poor staggering concern overloaded with loot bonds and such things, should have gone to a receivership. But in the course of time there came a business revival through the country resulting in an increased demand for coal, and the wretched thing managed by sheer good fortune to sustain itself. Years afterward Mr. Ryan hooked to it some more railroads similarly broken-backed, blanketed these (if you will believe me) with more of the nifty mortgage, and in the end sold the whole curio collection at a profit—a consummation characteristic of the other side of fortune-making, which consists of mere luck.

But as to the light in which the courts view these performances, which was the moral we started with, I cite these condensations from the scalding opinion of the General Term, reviewing the methods of Burke and his assoociates. The court found that these methods were chiefly as follows:

1. Purchasing stocks of other railroads and getting bankers to advance money on them by which the control of the roads was secured without further expenditure.

2. Buying contiguous coal and other lands at less than their actual value and selling them to the company at a large advance.

3. Issuing the $14,500,000 of bonds for a specified purpose and then using $8,000,000 of the bonds for another purpose, namely, to redeem the notes given to Winslow, Lanier & Co., for the benefit of Burke and his associates.

4. Causing the company to mortgage all its property to support these bonds.

5. Concealing the use really intended to be made of these bonds and misrepresenting it in the covenant declarations of the mortgage.

All these actions the court held to be utterly wrong. How they could be wrong in this instance and right in the hundreds of other instances in which they have been used, will puzzle the ungifted mind to discern.

But what is still more important for us to remember is that all of the fictitious capitalization thus created by Mr. Burke and his associates is still in existence and still collecting tribute from us.

In the end the poor old Hocking Valley was absorbed by the Chesapeake & Ohio, and in the gigantic capitalization of that system you will find the full results of Mr. Burke's ingenious scheme of sudden wealth. It is part of that total capitalization that forms the basis of passenger and freight rates for the public and wages for the railroad employee.

When in 1922 the Railroad Labor Board cut the pay of track walkers and section hands it said that these cuts were necessary to enable the railroads to get upon their feet.

What it meant was that they were necessary to enable the railroads to make profits on capitalization piled up in ways of which Mr. Burke's exploit was an instance.

B. Samples from a Fruitful Field.

The tricks that have been played with the Erie Railroad have passed into history if not into proverbs.

Many persons that know nothing about similar stunts with other properties have a fair notion of the things Jay Gould and Daniel Drew did with Erie. They may never have thought of the price they have paid for these tricks but they know in a general way that by these devious means was laid the foundation of the Gould fortune.

In the foregoing pages, if I have told the story right, it must be apparent that Jay Gould was not more unscrupulous than other men in the manipulating of railroad securities but only more celebrated.

For these reasons it does not seem to me necessary to go deeply into the history of Erie, since it is in every library in the brilliant accounts of Charles Francis Adams and others, but only to tell typical incidents that fit neatly into what we have been saying on this subject of the origin of the capital on which rates are based and wages determined.

In 1880, the Erie Railroad Company, then known as the New York, Lake Erie & Western, borrowed certain sums of money to buy locomotives.

The cost of the locomotives was therefore added to capital account. They became part of the bonded indebtedness of the railroad on which interest charges must be met from passenger and freight rates.

They ought not to have been added to capital account, because they were to take the place of old locomotives that had been worn out and discarded. They were therefore renewals.

But the money was borrowed and the charge made and every year the interest, dug out of the public by means of rates, was paid on the bonds that represented these machines.

Not a trace of the locomotives is now left to gladden the human eye, but the charge is still there, the indebtedness remains exactly as in 1880, and every year income must be had to meet the interest charges on locomotives that no longer exist.

Not only so, but it is safe to say that meantime two other locomotives have been provided in the same way to take the place of each of the locomotives of 1880; that these in turn have disappeared and that on these also we are paying annually the interest charges.

In the course of time we shall be paying an annual interest charge upon dead and decayed equipment much larger than the value of all the equipment that actually exists.

I cite this as but one of the eccentricities of the American railroad system and one of the curses we brought down upon ourselves when we allowed it to assume another relation to us than that of a public highway.

The wise people of France have made no such blunder. A French railroad company operates a highway as the agent of the people to whom after a term of years all the property of the railroad reverts. Meantime the capitalization of the company must be diminished as the value of its equipment declines with years and use.

With us it is exactly the other way. We allow capitalization to be increased in proportion as the evidences of value disappear.

The Erie, which ought to be one of the most profitable railroads in the world, has been a lame and limping concern almost sixty years. It is an example of the cost to the public of these private railroad for-

tunes, for it has never recovered from the lootings to which it has been subjected and never will recover from them so long as it continues in private hands.

More than a generation ago the Gentlemen on the Inside of Erie, the men that controlled and manipulated it, thought they saw a good safe way to a fat profit and they sold the stock of the road short; that is to say, they bet on the stock market that the price of Erie would decline.

Having made this bet, the more the stock declined the more they would make. Erie was then selling at 95.

The road had 28,000 shares of stock in its treasury that had never been issued and $3,000,000 worth of bonds that were convertible into stock.

Being in control of the company, these Gentlemen took the 28,000 shares and the $3,000,000 of bonds and put them up with one of their number as collateral for a loan of $3,500,000—a loan to the company.

This man then took his collateral (the convertible bonds being the same as stock) and of a sudden threw it all upon the market.

Down went the price of Erie from 95 to 50.

Whereupon, of course, the Gentlemen made a huge killing. In two days they scoped in $10,000,000 to $15,000,000.

But they had added to the Erie's capitalization $2,800,000 of shares and $3,000,000 of bonds, and that $5,800,000 of capitalization is still there. It is part of that monstrous and staggering total of $421,635,952 under which this enterprise is oppressed. On the bonds alone there has been collected from us in annual interest charges made up of freight and passenger

rates, $8,000,000 or nearly three times the face value of the bonds when they were issued.

On this great capitalization it is impossible to keep up the interest charges and likewise the equipment. Hence the equipment was neglected, with the result that in 1922 railroad workers were informed they must accept a reduction in pay that this and other similarly wrecked railroads might be placed "again upon their feet."

Some time before this pleasing incident, the Gentlemen on the Inside of the Erie had gone to the New York legislature and had a bill passed that authorized any railroad to issue its stock in exchange for the securities of any other railroad that it had leased.

This was a very innocent looking measure. Many persons did not see the least harm in it, and many others, of course, did not know what it meant.

The Gentlemen on the Inside knew what it meant, all right. They were not having laws passed for nothing—a remark that is probably true in either application of it.

The next thing they did was to reach out and obtain for an expenditure of $250,000 a bit of junk railroad called the Buffalo, Bradford & Pittsburgh. It was 25 miles long and belonged to the order of tri-daily railroads. That is to say, they ran a train on it one day and tried to run one the next.

The Gentlemen now issued $2,000,000 of bonds on the Buffalo, Bradford & Pittsburgh railroad, making one of their own number trustee thereof.

Next they leased the Buffalo, Bradford & Pittsburgh to the Erie for 499 years.

Next, sitting at the same table as directors of the

Erie they confirmed the lease, the Erie assuming and guaranteeing the bonds. Then they adjourned as directors of the Erie and, still sitting at the same table, divided the plunder.

Two millions of 7 per cent bonds, now guaranteed.

For a long time this little deal cost the public $140,000 a year in the interest on these securities.

The interest has since been reduced, so that the charge on the deal is now about $100,000 a year instead of $140,000, but in that reduced form it still goes on and always will go on so long as public highways are possessed by private greed.

One hundred thousand dollars a year—that isn't much. No, but this one little grab has so far cost the public nearly $5,000,000 in interest charges, or two and a half times the amount the Inside Gentlemen scooped in for themselves.

Just as in the case of the worn-out locomotives, the debt that is loaded upon the concern to make profits for the management goes on long after the management has become dust. It is a pleasant thing for the directors to make fat leases with themselves, issue bonds for their own benefit, endow themselves with melons. It is no pleasure to the next generation when, these items being included in the railroad capitalization, income must be raised and rates adjusted to meet the interest charges they leave behind them.

C. *The Land Grant Railroads.*

We were speaking some pages back about the grants the Congress of the United States made of the public domain to various railroad projects. One of the most

insatiable of these railroad cormorants was the Northern Pacific.

This railroad received first and last more than 43,000,000 acres of the people's land.

The value of this much more than paid the construction cost, so that the people really built the road and then presented it to its projectors.

This is an understatement. The value of the land conferred upon this road will in the end be worth more than all of its other possessions together.

Senator Pettigrew has told how some of this abnormal value came about. When he was in the Senate a bill was brought in to establish the national forest reserves, a worthy purpose.

He learned that in the cases of some of the projected forest reserves settlers would be so surrounded with the reserved land that they would have no access to their property. He therefore had an amendment offered providing that in such a case a settler might exchange his farm for a similar amount of land elsewhere in the public domain.

While the bill was on passage the railroad attorneys in the Senate had the wording of this amendment so changed that any holder of land from the public domain, whether settler or not, could exchange his holdings for others of equal amount elsewhere.

This change was forced through by a trick. It was withheld until the bill was in conference, after which there was no chance for further change or amendment, and then in the last moment of the session rushed through.

By reason of this iniquity, railroads that held among their grants from the public domain long

stretches of sand barrens or cactus exchanged them into public land that bore valuable timber or other resources.

Among these beneficiaries was the Northern Pacific, which now holds 9,962,896 acres of land covered with valuable white pine—valuable now, becoming more valuable every day.

Against these and their always increasing value the Northern Pacific is justified, according to the theories of railroad executives, in issuing additional capital, dollar for dollar of the value of the lands.

Then rates may be based on capital so created.

It has already issued $60,000,000 of additional capital on these lands, and the public has had so far the pleasure of paying $32,000,000 in interest on capital so issued—capital based upon the public's own gifts.

At the same time the value of the Northern Pacific's right of way, also a free gift from the people, steadily mounts, and if the railroad executives are right it also may be made the basis for further increases in capital and so for further increases in rates. In ten years this right of way increased in value from $50,000,000 to $175,000,000; it is now worth more than $200,000,000.

Against this the Northern Pacific issued in seven years $73,000,000 of additional stock, on which is collected from the public every year $5,110,000 of interest. In twelve years it issued $112,613,500 of additional bonds on which it collected from the public $4,504,540 of annual interest.

It is to furnish increasing interest charges on the

increasing value of their own free gift that the people are called upon to pay increased freight rates.

First and last this nation has bestowed upon its railroads 155,273,560 acres of the public domain. The theory of the defenders of our railroad system is, and must be, that so fast as this property increases in value the railroads may issue securities against it and increase rates to pay the increased interest charges on these always increasing securities.

The land of the people that Congress has bestowed upon private railroad enterprises, amounting to 242,614 square miles, is an area nearly five times as great as the entire state of Illinois; it is greater than all New England with the states of New York, New Jersey, Pensylvania, Maryland, Delaware and Virginia added.

At the average prices that most of the railroads have received for such of these lands as they have sold, the money value of this gift is more than one billion dollars and amounts to about one-ninth of the actual capitalization of all the railroads with the water squeezed out.

Much of this magnificent and unparalleled donation, an empire in itself, has been capitalized and the people are now paying interest on their own generosity.

Here are some enterprises that have profited by these foolish and unnecessary gifts:

Railroad.	Land Grant in Acres.
Atchison, Topeka & Santa Fe	17,425,300
Central Pacific (Southern Pacific)	9,379,140
Chicago, Burlington & Quincy	3,408,046
Chicago, Milwaukee & St. Paul	4,222,137
Chicago & Northwestern	4,415,447

Railroad.	Land Grant in Acres.
Chicago, Rock Island & Pacific	1,228,526
Chicago, St. Paul, Minneapolis & Omaha (Northwestern)	2,645,320
Choctaw, Oklahoma & Gulf (Rock Island)	838,400
Grand Rapids & Indiana	954,373
Illinois Central	3,920,848
Missouri, Kansas & Texas	1,121,784
Mobile & Ohio	3,920,848
Northern Pacific	43,893,728
Pere Marquette	589,290
St. Louis, Iron Mountain & Southern	3,498,578
St. Paul, Minneapolis & Manitoba	3,770,532
Seaboard Air Line	1,034,220
Southern Pacific	14,351,587
Union Pacific	19,144,394
Wisconsin Central	1,232,562

All of these railroads are applicants for increased rates and diminished wages.

CHAPTER XVI

THE LOUISVILLE & NASHVILLE

The Railroad in Politics and the Government.

A highway is not only a public institution—always and essentially public—but it is always a thing connected with the operations of government, or what is called sovereignty.

This we have seen before, but it is a truth that we should always return to when we try to deal with any phase of the railroad problem.

Whoever owns the highways of a country owns that country. We have seen conclusive illustrations of that fact in the history of the Southern Pacific in California, where all pretense of any other actual government was abandoned and the railroad company selected all public officers, determined legislation, levied taxes, made and unmade policies and exercised to the full the functions of sovereignty.

In the end the people of California, long enduring like the rest of us, revolted against a condition so repulsive to every American tradition and doctrine, rose in their might and put an end to the gross and lawless tyranny with which they had been oppressed.

The revolt is celebrated in western history. Yet in point of fact the control of California by the satrapy of the Southern Pacific was not more complete or absolute than the control of Pensylvania by the Pennsylvania Railroad or the control of Rhode Island by

the New Haven. As we have before noted, the control of the highways inevitably carries with it the control of the government, because the highways are the most important thing the government has, and whoever gets them gets practically all the rest. Sometimes the railroads exercised their sovereignty in a crude, frank way, as in California, and sometimes with finesse and polish, as in New York, but they exercised it everywhere, and controlling the highways could not have done anything else.

We reach now the case of a railroad that ruled so long the political affairs not merely of one state but of several that its managers came to think their power was unlimited and eternal, and thereby got into trouble.

Their troubles do not concern us here except that they illustrate forcibly the general truth of the sovereign function of the highway and also show again and in a different way what this railroad capitalization really is on which rates are based and wages determined.

The Louisville & Nashville is a corporation that dates back to 1850. Like the other great railroad companies of this day, it is an aggregation of many smaller enterprises, and whenever it has gathered in a new line the union has been cemented by an addition to the total capitalization without increasing the actual investment in the property.

It appears that the gentlemen that have conducted the Louisville & Nashville were of old familiar with other means by which capitalization is increased and private fortunes are created at the public expense. So far back as 1861, when such things were rare novel-

ties, the directors declared a stock dividend of ½ of 1 per cent and, finding this odd little experiment to go well, followed it with another of 10 per cent. What has been done since in this field of endeavor is clothed in some mystery. The Interstate Commerce Commission once tried to pierce the veil, but the company thoughtfully destroyed most of its records and then refused to produce most of the rest. The Commission's investigators nevertheless found in the office of the company a small corporate history of the concern, from which it appeared that in the next few years there had been cut these delicious melons, all representing additions to the capitalization without corresponding investment:

Date.	Rate.	Amount.
January 2, 1864	10 per cent	Not shown
November 16, 1867	40 " "	$2,376,548
October 6, 1880	100 " "	9,065,000
January 9, 1888	2 " "	
July 26, 1888	3 " "	3,112,800
January 9, 1889	2 " "	
July 18, 1889	3 " "	
January 6, 1890	3.9 " "	1,887,200
July 2, 1890	1.9 " "	

When the melon of 100 per cent came to be cut in October, 1880, there was no adequate surplus of earnings to base it upon. In the treasury was only $3,671,383 of accumulated earnings gathered from excessive rates charged to the public and the sum was not enough. So the directors took the books and with a few deft strokes with the handy pen marked up the value of the company's assets until they had added $7,212,226 thereto and had enough to base the stock dividend of 100 per cent.

We may well remember that the value thus added with pen strokes went immediately into capitalization, is there now and is part of the total upon which rates are based and wages determined. So far those pen marks have cost the public $1,470,000 directly and much more than that indirectly.

But we started to tell of this railroad as a sovereign power. As it grew with the accretion of smaller lines it developed a policy of securing at whatsoever cost a monopoly of the transportation business in the region it traversed.

The purpose of its managers was to make it the Southern Pacific of the South. Hold all the highways and charge whatever tolls the people would stand for.

To do this it went into politics as the Southern Pacific before it. In a few years it had become the dominating force and virtual government in three southern states and an awe-inspiring influence in others. In some of these states it usually controlled political conventions, had its way in the legislatures, chose the public servants, nominated governors, members of Congress, Senators, edited newspapers, engineered campaigns.

Now and then somebody in the South whose neck was abraded by this collar broke away and tried to win free from the octopus. Him the railroad picked up and slammed upon the pavement.

After a few years of this, discerning politicians, editors and public servants saw where their interest lay and wore the collar without repining.

In 1913 the thing was a regional scandal and notorious. The Louisville & Nashville had become in fact and practice the only actual government in these states. It was the time of the muck-raker, that fear-

some beast. Light was turned upon these conditions, and Congress was induced to pass a resolution asking the Interstate Commerce Commission to make investigation of the Louisville & Nashville's political department.

It was then that the books were destroyed and the sources of information closed. The Commission came upon certain indications that for years vast sums of money had been spent by this railroad for political control. It put upon the stand Mr. M. H. Smith, president, and other officers of the Louisville & Nashville, who refused to answer any questions concerning these expenditures.

The Commission then applied to the courts for an order compelling the officers to answer the questions put to them. The railroad fought the case to the Supreme Court of the United States, which affirmed the decision of the courts below that answers must be made. For some reason not now apparent the Commission did not press its victory, but agreed with Mr. Smith upon some modified questions that he was to answer. Whereupon he admitted that the money had been spent for political purposes and to influence elections and were then charged to "operating expenses," where they appear to this day.

Among these expenditures were sums paid to an influential and reputable daily newspaper to hire it to advocate the railroad company's pet measures.

It is to meet "operating expenses" of this kind, with others, that rates must be increased to the public and wages reduced to the employees.

To head off restrictive legislation there was formed the Tennessee Railroad Association, which seems to

have been, in plain terms, a lobbying and legislator-getting device. The Louisville & Nashville paid to it at one time $120,000 and at another $130,000. Nearly $300,000 worth of vouchers were gathered that were without explanation except for "special" services. Besides these, vouchers for nearly $70,000 of unexplained expenditures were discovered in the legal department. Many of the officers of the railroad had "suspense" accounts through which they expended large sums that were never explained. Requests for light upon these payments were absolutely refused.

One of the subsidiaries of the Louisville & Nashville was the Nashville, Chattanooga & St. Louis, a former competitor that it had absorbed. Great sums of money were also expended in the name of the Nashville, Chattanooga & St. Louis without explanation or proper voucher, and all information concerning these payments was likewise refused.

It appeared, however, that all of them had been included in the "operating expenses" for the sake of which the railroads, including the Louisville & Nashvile, petitioned for increase of rates and argued for decrease of wages.

The Commission's investigators found that evidence concerning these expenditures was to be had in the company's correspondence files, which the company refused to allow to be examined. The Commission again went to the courts for assistance, and when this issue in its turn had been fought to the Supreme Court of the United States that body held that although the law authorized the Commission to compel the production of any railroad's "accounts, records and memo-

randa," a railroad's correspondence need not be produced.

The result of this decision was, of course, to put an end to all investigation concerning the political activities of any railroad or indeed of anything the railroad might wish to conceal. It had but to make its records in the shape of letters to an imaginary person and no power in the United States could ever disclose them.

But enough had been learned in the case of the Louisville & Nashville to show clearly the methods by which it exercised its sovereign functions over these three southern states.

For instance, the Commission picked up some valuable information about the use of passes to further the company's ends in political and legislative matters. Although the law had long forbidden the use of these passes, it appeared that in one year the Louisville & Nashville proper had issued to public officers, attorneys, newspaper representatives and the like 11,805 free passes, involving 4,577,928 miles of travel, the value of which was $130,839.

It may be interesting to follow this and see who received these favors. The passes issued by the Louisville & Nashville proper were distributed as follows:

Class.	Number of passes.	Mileage.	Value.
Members of legislative bodies and other public officials.	6,578	2,155,465	$ 61,727.59
Attorneys	1,402	874,341	24,520.32
Newspaper representatives..	2,631	1,119,060	32,246.70
Various other persons......	1,194	429,062	12,345.04
Total	11,805	4,577,928	$130,839.65

Of these, 1,942 passes were issued to members of the legislature and 4,636 at the request of members.

This seems to indicate sufficiently one of the methods by which the Louisville & Nashville, controlling the highways, exercised the sovereign power in that state.

The recipients of these favors included public officers from almost every branch of the public service. They were issued as follows:

On account of—.	Number of passes.	Mileage.	Value.
United States senator......	1	....	....
United States representatives	2	204	$ 6.12
Other United States officials	139	56,558	1,675.49
State senators	1,556	390,383	11,323.53
State representatives	2,183	505,201	14,850.06
Other state officials........	1,769	839,567	23,996.36
County officials	228	167,802	4,674.49
City officials	611	149,290	4,021.14
Judges	89	46,460	1,180.40
Total	6,578	2,155,465	$61,727.59

This is one year's record and comprises only the passes issued by the Louisville & Nashville proper. Meantime its subsidiary, the Nashville, Chattanooga & St. Louis, was not indifferent to these activities. In the same period it issued to or at the request of public officers and the like, 22,255 passes, involving 7,133,944 miles of travel, the value of which was $209,420.

The distribution of the passes issued that year by the Nashville, Chattanooga & St. Louis was as follows:

Class.	Number of passes.	Mileage.	Value.
Members of legislative bodies and other public officials.	16,580	5,573,135	$164,524.81
Attorneys	291	153,261	4,442.81
Newspaper representatives..	1,310	348,738	10,006.56
Various other persons......	4,074	1,058,810	30,446.78
Total	22,255	7,133,944	$209,420.96

Of which 1,247 were issued to members of the legislature and 15,333 at their request.

Those issued on account of public officers were distributed thus:

On account of—.	Number of passes.	Mileage.	Value.
United States senators......	......	....	....
United States representatives	......	....	....
Other United States officials	151	37,757	$ 1,097.39
State senators	5,814	1,788,560	52,961.50
State representatives	8,439	2,969,038	87,713.06
Other state officials.........	1,086	444,158	13,089.29
County officials	388	130,540	3,700.00
City officials	532	143,125	4,163.50
Judges	170	59,957	1,800.07
Total	16,580	5,573,135	$164,524.81

At the very time when it was pouring out all this free transportation to judges and legislators it was, with brazen effrontery, beseeching the Interstate Commerce Commission for increased rates and resisting the efforts of its employees to obtain a living wage.

Every mile of free transportation that it gave away was, of course, reflected in its "operating receipts" and "operating expenses" that are shown in support of both of these efforts.

It appeared further that the company was accustomed to make lavish expenditures to maintain its transportation monopoly in the region it traversed and that these expenditures landed in the accounts as "operating expenses" or the like.

For instance, there had once been a thriving competition carried on by steamboats on the Alabama River. To head this off the railroad made an arrangement with the steamboat company by which the steamboat company advanced its rates to those charged by the railroad and then was paid a certain amount each year as "minimum freight charges," whether it carried any freight or not.

It seems that news of this delightful arrangement must have leaked out, for after a time a new steamboat company was formed and began to carry actual freight at actually reduced rates.

The railroad made short work of this. With its steamboat satelites it cut rates until the rival had been ruined and then restored them.

Another rival steamboat line appeared but was more adroitly managed. It allowed itself to be absorbed at the cost of an increase of capitalization that the public must bear.

For some years quiet reigned on the Alabama. Then another band of trouble makers started a new competitive line. The Louisville & Nashville found a man ready to put this out of business and advanced money to him on his notes. He built some steamboats and ran them at nominal rates until he had ruined the competitor. Then the Louisville & Nashville charged off his notes as "worthless."

And thus also is railroad capitalization made.

The United States government had expended upon the Alabama River millions of dollars to make its navigation safe and inviting. The Louisville & Nashville Railroad killed navigation on the Alabama River and made the expenditures of the United States government there all waste and useless. Then the Louisville & Nashville Railroad petitioned the same United States government for leave to increase its rates, having thus killed off water competition.

In 1890 much more than one-half of the stock capitalization of this railroad was superfluous.

All the water in its capital that existed in 1890 is still there demanding profits, and there have been added great sums in capitalized earnings, capitalized improvements and the like.

In 1920, because of this excessive capitalization, and for no other reason, the freight rates on this railroad were increased more than 25 per cent and the passenger rates more than 30 per cent.

In 1922 it joined with other railroads in securing from the Railroad Labor Board an order reducing the pay of track-walkers, section hands and other workers on its lines.

If the water were excluded from its capitalization, if its capital consisted only of money actually and legitimately invested in the enterprise, it could carry freight and passengers at one-half its present rates and pay its track-walkers and section hands a reasonable wage.

Total capitalization, December 30, 1920, $297,520,515, of which $72,000,000 was stock and $225,520,515 bonds. Mileage operated, 7,695. Interest on bonds, $8,144,522.

CHAPTER XVII

WHAT HAPPENED TO THE NEW HAVEN

But the best illustration of the American railroad company as it really is we can find in the story of the New York, New Haven & Hartford.

Whoever will read attentively the record of this road need never be deceived again as to the exact terms of the American railroad problem.

He will see clearly the four great truths that determine the whole subject. Let us restate them here.

First, that the typical American railroad is not an enterprise to transport passengers and goods, but an enterprise to issue, juggle and make profits from securities.

Second, that it is the issuing of these securities that alone has brought the system to a state of wreckage.

Third, that every dollar of private fortune made by the issuing of these securities becomes a tax levied upon the public that the public must pay annually in higher fares, worse service and increased peril to travelers.

Fourth, that rates are based upon these fictitious issues and wages are determined by them, so that when the railroad companies come into court and pretend that they must increase rates to meet wages demands they are merely faking. If there had been no over-issues of securities the railroads of America could pay all the wage increases of the last twelve years and never increase rates by one cent.

On the contrary, but for these security issues, rates would now be less than one-half the present standards, wage increases and all being included.

If there is a railroad in all the world that ought to be operated at a fat profit, it is the New York, New Haven & Hartford. It has short hauls, stiff rates and an enormous business. In what is called traffic density, which means the amount of business by the mile of line, it goes beyond any other railroad in the United States and almost anywhere else. There may be two railroads in England that have a somewhat greater traffic density, but that is all.

It runs through the most thickly settled area in America, connects great cities and taps our most important manufacturing centers. If a region for railroad profits could be made to order it couldn't be better than this.

Yet this great and wonderful enterprise that ought to be so prosperous has been for ten years bumping along the shoals of disaster, barely clawing off bankruptcy and a receivership. The public meantime being stung for increased fares, increased rates and impoverished service, and traveling often at a needless risk of accident, while the workers find their just demands for adequate wages blocked by the plea of this road's extreme poverty.

Poor? How poor? It is by rights one of the richest corporations in all the world. How, then, does it come to be called poor?

In this way:

For years and years the New York, New Haven & Hartford Railroad Company was esteemed an institution as solid as the United States treasury and the

ideal of a safe, sane and conservative business enterprise. It went its way earning good dividends, keeping them from becoming too large by judicious concessions in rates, and serving fairly well the vast population that depended upon it for transit, while its stock was 200 or more in the market and regarded as about equal to a government bond.

Then its control fell into the hands of a certain band of Wall Street financiers of the utmost repute and respectability, whose specialty was the making of fortunes by issuing railroad securities, and it was their pursuit of this safe and favorite indoor sport that wrought the change in the New York, New Haven & Hartford.

In 1904, when they took possession, the capital stock of the road was $80,000,000, and the whole of its bond issues outstanding amounted to only $34,491,000.

Of these, $24,852,000 were of the variety of bonds that are called "debenture certificates," which is chiefly another name for the same thing.

After seven years of the new control the capital stock had been more than doubled and the outstanding bonds increased by more than 600 per cent.

The road could no longer earn the interest and dividend charges on this vast overcapitalization.

What was the reason or excuse or pretext for the increase that had been made?

The gentlemen that had secured the control of the property had entered upon an alluring scheme to gather into their own hands all the railroads of New England and most of the trolley lines and public service corporations as well.

To do this they used the New Haven as their base.

They issued upon it certain bonds and stocks. With these they bought an interurban trolley line. On this they issued more securities and used them to buy another trolley line. On this they issued more securities and used them to buy a gas company.

Whenever in this pleasant performance they needed more securities than the trolley companies or gas companies could furnish they came back to the good old New Haven and loaded it down with some more millions.

In this way they secured control of the Boston & Maine and had in their fists the entire railroad transportation business of New England. There was hardly a city, town or village on which they could not lay tribute. Finally, with securities thus issued, they swept into their net the steamboat lines of Long Island Sound and disposed of the last chance that their empire could be assailed by water competition.

Of every kind of transportation they had the monopoly, except walking and horseback riding. The sovereign people of New England were still free to practice pedestrianism along their highways and go as far as they liked. But if they wished to be carried in cars or boats they must stand and deliver to the Wall Street combination.

Many of these operations were illegal under the state law of Massachusetts or under the Federal law of the United States or under both.

The combination seemed able to secure the indulgence of both State and Federal authorities, for they went their way and trampled merrily on both sets of laws and assimilated properties and issued more

securities on the poor old New Haven and had a right good time.

There was also one other trouble that afflicted them. There was one man that could not be bribed nor bought nor frightened nor bullied but just stood in the market place day and night crying out that all this was wrong and could end only in disaster.

The combination had built up an obedient chorus of newspapers and writers and owned or controlled a vast system of news agencies. All these now covered this one man with ridicule and abuse.

He replied with figures and facts; replied calmly and soberly and without feeling. He said that the Insiders by these methods had scooped all the interior substance out of the New Haven property and what was left was a shell. He said the shell would fall over next and great would be the fall of it. The railroad press and the railroad writers said he was a liar. He responded by showing in black and white that the New York, New Haven & Hartford was paying dividends that it had never earned and coolly inquired how long anybody imagined that process could go on without a smash. The railroad newspapers said he was crazy. He exhibited the railroad's balance sheet. They said he was a vile and malicious person trying to undermine the country's business and welfare. He pointed to the New Haven's receipts and expenditures.

His name was Louis D. Brandeis. He is now a justice of the Supreme Court of the United States.

He had reason to point to the balance sheet. Here is the record of eleven years of the game of financial bunco as played upon this property:

TOTAL CAPITALIZATION OF THE NEW YORK, NEW HAVEN & HARTFORD.

Year	Capital Stock	Debenture Certificates	Funded Debt
1904..............	$ 80,000,000	$ 24,852,000	$ 9,639,000
1905..............	80,000,000	25,185,300	12,004,000
1906..............	83,387,000	70,815,725	20,043,000
1907..............	97,080,400	146,965,400	32,339,000
1908..............	97,895,700	173,565,750	56,849,000
1909..............	100,000,000	175,898,875	58,961,000
1910..............	144,017,425	173,380,000	58,661,000
1911..............	178,298,500	151,593,200	60,961,000

The total capitalization was in 1904 $114,481,000. In 1911 it had become $390,852,200.

About such increases in railroad capital the railroad press has a trick of saying that they are justified because they capitalize the earning power of the property.

We may now see how much merit there is in this assertion.

The capitalization of this railroad had been increased nearly four fold.

But its earnings had not increased four fold, nor three fold nor two fold. From 1904 to 1911 they had not increased by one-third.

Total capitalization had increased 243 per cent; interest and dividend charges had increased 243 per cent. Business had increased only 30 per cent.

Mr. Brandeis, therefore, was absolutely right. The dividends were being paid, not out of the earnings of the property but out of the proceeds of the sales of more securities. Any man not a candidate for the imbecile asylum could see that this process meant ultimate wreck.

The gentlemen of Wall Street that had dug fortunes out of the property had with the same spades dug its ruin.

Nevertheless the management continued for some time to struggle with a hopeless situation. The property was not earning its dividend and interest charges, although (except for Mr. Brandeis) that fact was carefully concealed from the public. The management was now driven to the course that at some time or other the management of almost every other railroad in America has followed.

To get money to meet interest and dividend charges on excessive capitalization it skimped the expenditures for the physical upkeep of the road, it gouged the public with increased fares and so far as it could it gouged its employees.

All local and suburban rates were increased 25 per cent first and then raised again. Through rates were raised wherever the Interstate Commerce Commission could be induced to allow them.

This is how the public paid with its pocketbook for these amusements. And here is how it paid with its blood:

We will take but two illustrations. I have said that the physical upkeep of the road was neglected. In the year 1906, $10,096,605, which had been spent unavoidably on equipment renewals, should have been charged to renewal expenses. Instead it was improperly charged off to profit and loss so as to make the operating profits look big, the dividends seem to be earned and the concern to look prosperous.

When these items had been landed in the profit and loss account they were next improperly taken care of

by balancing them against the premiums on the sale of more bonds. That is to say, when bonds were issued and sold for fifty points above par, say, the extra fifty points furnished the screen behind which these bookkeeping tricks were concealed.

In the same year the usual charge-off for maintenance was quietly omitted from the balance sheet.

The directors that year declared and paid the usual 8 per cent on the capital stock.

If the usual maintenance charge had been made there would not have been enough money to pay these dividends—not by $1,171,530.

So then here we are, cause and effect—plain as a pike staff. The property had been loaded down with securities issued for the benefit of the Insiders and their schemes. At last the business done would no longer produce the money to pay the interest and dividend charges on these securities. Therefore, all expenses were cut to the bone. Track and roadbed were neglected. Equipment began to run down. Needed repairs were not made. Soon strenuous complaints began about the condition of certain places in the track. These complaints were conveniently shelved. Safety must therefore be sacrificed to dividends, and here is the record of some of the results:

July 12, 1911, the Federal Express, a fast New Haven train between Washington and Boston, was wrecked at Bridgeport, Connecticut. Twelve persons killed; one hundred persons injured. Cause, a defective cross-over (switch by which a train passes from one track to another).

After paying with our pocketbooks we had begun to pay with our blood.

The coroner's verdict held the company criminally negligent for maintaining "inherently dangerous and short cross-overs on fast express lines." The Inter-State Commerce Commission ordered the company to abolish such cross-overs.

October 3, 1912, the Springfield Express was wrecked at Westfield, Connecticut. Nine persons killed, fifty persons injured. Cause, defective cross-over.

The company had ignored the coroner's verdict on the Bridgeport disaster and likewise the explicit order of the Interstate Commerce Commission. It had not been able to obey this order and support the interest charges on the huge over-issue of securities made for the benefit of a scheme of transportation monopoly.

November 16, 1912, the Merchants Limited, a fast and famous train of the New Haven, was wrecked at Greens Farms, Connecticut. Twenty-three persons injured. Cause, defective cross-over.

June 11, 1913, two express trains were in collision at Stamford, Connecticut. Nine persons killed, forty-eight persons injured. Cause, defective brakes on one of the locomotives.

Please note. The engineer of this locomotive had reported the defect when he returned from his last previous trip with it. Reported it in writing to the proper authority. No attempt was made to remedy the defect. The locomotive, with its brakes in bad order, was allowed to go out again—this time to smash and slay.

Two weeks later there was an addition to the list of its victims. Its engineer died at his home of worry and brooding over the accident. He had not been hurt

in the wreck, but there was an attempt to fasten the blame upon him in spite of the written evidence of his report. He was one man pitted against a great and powerful corporation. The struggle seemed utterly hopeless, and he gave it up.

Between June 8, 1911, and November 17, 1912, there occurred on the New Haven nine serious wrecks, all from causes apparently preventable.

From November 17, 1912, to June 12, 1913, there were four more. The accident ratio, therefore, was increasing; the road was always becoming more dangerous.

In these disasters thirty-four persons were killed; 264 persons were injured. Some of the injured victims were horribly mutilated. Correspondents said that the scenes at the wreck of the Federal Express at Bridgeport were like those at a field hospital after a battle.

Certain cause, certain result. The physical condition of the road had been neglected that dividends might be paid and interest charges met on a capitalization that had increased 243 per cent in seven years. It is not my deduction. The whole thing is in the official records. Go to them if you have any doubt of the accuracy of this sanguinary story. The reports of the accident division of the Interstate Commerce Commission, for instance. Each of these disasters was investigated by the Commission, and some of the findings were terrific indictments of the whole system of operating a public highway for private greed. At one of these investigations an Interstate Commerce Commissioner laid aside his judicial chill to denounce with a wrath that stung and bit the failure of the company

to take the ordinary precautions for the safety of its pasengers. In some instances it appeared that old wooden cars, about like matchwood, were still in use, although the Commission had repeatedly condemned them. The company could not buy safe cars and pay dividends too. It took the chances on the matchwood and paid the dividends.

In other investigations the fact was revealed that the signal system in use upon this grand old railroad, most profitable in America, was so antiquated that experts laughed at it as a relic of railroad darkness. In another it appeared that the track conditions were such as to insure accidents.

Naturally. Turn back to what was said a few pages ago about maintenance charges. The management could not keep up the track and meet the interest charges on that over-capitalization. It let the track slide and paid the interest charges. For that was what it was hired to do. That and not the other.

But by this time the whole country was aroused and the traveling public in a state bordering upon hysteria. Not all the press agency and propaganda department of the New Haven, wonderfully organized as it was, could keep down the rising indignation. Some meetings were held to denounce the railroad and its reckless management. The columns of some independent newspapers were filled with letters of bitter complaint. An increasing number of persons refused to risk life or limb on such a railroad and resorted to water transit or to trolleys or automobiles. The legal warfare against the octopus that had seized the transportation facilities of New England was revived. It

was evident that the schemes of the schemers were in peril.

Therefore, they resorted to a device quite familiar to men in their situation. They selected a goat. It was the unfortunate president of the road, whose offense had been a too faithful obedience to the repulsive duties laid upon him. They now picked him out, held his responsible for all that had gone wrong, and with a loud noise fired him.

Instead, they should have raised his salary and loaded him with riches and honors. He had, in fact, done marvelously well, considering the game he had been forced to play. The real wonder was not that there were many wrecks on the New Haven, but that the road, staggering under the interest charges that had been piled upon it, had been able to work at all. An increase of 243 per cent in dividends and interest charges and of only 30 per cent in business—what else would happen except wreck?

How far the process had been carried in this instance we may judge from one eloquent fact.

The Insiders now quietly slipped from under the colossal load. Without ostentation they disposed of their holding while the stock was still near the top notch—about 250.

Whereupon the dividends ceased, the real condition of the property was disclosed, the stock fell to 45 and the next great question was whether by any chance bankruptcy and a receivership could be avoided.

Mr. Louis D. Brandeis was abundantly vindicated. All he had said about the mismanagement of the property was proved. It appeared that his only error had been on the side of restraint.

But he had muckraked the institution. He had shown in black and white the secret operations of High Finance. He had stripped great fortune-making of the disguise by which it is sought to be distinguished from Sixteenth Century piracy, and that was and is the unpardonable offense. Some years afterward he came to be nominated to a place on the Supreme Court bench of the United States. All the power of the Consolidated Interests was put forth to prevent his confirmation. For weeks the battle raged over him. Against his spotless character and lofty attainments not a word could be suggested. In worth and learning no man was better equipped for the post. It was only said that he was a muckraker, a dangerous and pestilential agitator, an assailant of the stability of business, and for these reasons the whole force of the personal and political influence of Woodrow Wilson, then President of the United States, must be stretched to the utmost to get him through.

In the meantime, the new management of the New Haven, no longer obliged to pay dividends out of the life of the enterprise, repaired the tracks, scrapped the rotten equipment and stopped the accidents. But six years after the smashup the property had not recovered from the schemes of the Schemers. With all its great business it was still unable to pay dividends on its excessive capitalization and with difficulty met its fixed interest charges.

Before they retired, the Insiders of the great and daring Scheme performed one little act that ought to be set down here as an illustration of the true nature of the private ownership of public highways.

The New Haven had always operated its own sleep-

ing cars, from which it made an annual profit of $400,-000. The Insiders of Wall Street were heavily interested in the Pullman company. Before they gave up the control of the New Haven they made a contract with the Pullman Company by which it took over the New Haven's sleeping car business, and the $400,000 a year of profit was lost to the New Haven and added to the Pullman—in which the Insiders retained their interest.

Such is the story of the wreckage of the best railroad property in the United States if not in the world. There are three facts in it that ought never to be forgotten by any citizen of America:

First, every dollar of capitalization added here to advance the schemes of the Insiders is in the capitalization today.

Second, the presence of this added capitalization makes the New Haven an unprofitable railroad, whereas otherwise it would be handsomely profitable. Being made in this way unprofitable, the Interstate Commerce Commission allows it to increase its rates to cover the deficit thus created, and Congress legislates money from the public treasury to tide it over its difficulties.

Third, having been thus made unprofitable, it uses the fact that it is unprofitable as a reason for unjustly reducing the pay of its employees and, when these refuse to accept the reduction, puts upon them the blame for the crippling of the public service.

But suppose that from the beginning there had been applied to this instance also the ancient principle of the highway. Supose that the New York, New Haven & Hartford Company had never been regarded other-

wise than as an agent of the public administering the public's thoroughfare. Suppose that all profits in excess of a reasonable compensation for this service had been returned to the public in the shape of reduced rates.

What would those rates be now?

What wages could not the enterprise pay?

What would be the public's percentage of safety on its own highway?

CHAPTER XVII

CONCLUSIONS AND REMEDIES

From all these examples and instances of the American Railroad as It Really Is, one fact stands out perfectly clear, and of sobering significance.

All other phases of the railroad problem are unimportant compared with Capitalization.

Everything else comes back in the end to only this.

It is to secure additional revenue to meet additional and unnecessary charges on Capitalization, and for this alone that railroads seek, by all means fair and foul, and are driven to seek, the increase of traffic rates and the decrease of workers' wages.

It is for this that they rob their maintenance funds, neglect repairs, and allow accidents to multiply.

It is for this that we pay with our purses, our lives.

If railroad capitalization had been just, reasonable, honest, the railroads could have met the wage increases of the last ten years and never have felt them.

If railroad capitalization were just, reasonable, honest, our railroads could at a profit transport passengers and freight at one-half the present charges.

If railroad capitalization were just, reasonable, honest, our railroads could maintain the physical condition of their properties so that the public could travel over their roads with a fair assurance of safety and the American railroad would not be notorious as the most dangerous in the world.

But as soon as we mention the fictitious, fraudulent

or superfluous capitalization of the American railroads someone shouts that we are talking about "watered stock" and that investigation has proved that there is no "watered stock" in the American railroad system.

This brings me to a branch of my subject that has a peculiar concern for the citizen as well as for the householder. I beg serious attention to it.

No other business enterprise in the world depends so much upon the press agent and his propaganda as the American Railroad. No other propaganda is so skillfully handled as railroad propaganda. No other propaganda but American railroad propaganda has caused a great and intelligent people to believe black is white, a lie the truth, and myths to be facts.

We will now take some of these triumphs of the American railroad press agents' art and see how directly they come home to the chapters of history we have been considering.

1. That there is no "Water" in American railroad stocks.

For many years every student of railroad economics has been aware of the general condition of too much capitalization that we have found, by these examinations, to be the rule.

It is the heart of the railroad problem, but not a thing that can easily be brought to the public attention.

It is dry, it is statistical, it has little of the juice of human interest.

Nevertheless, by slow degrees and by dint of much experience, the public at large was beginning to understand that the capitalization of the railroads was a

matter of direct and daily interest to every household, because rates were based on capitalization and rates greatly affected grocer bills, butcher bills, dry goods bills and rents, with other things.

To this improper and indefensible capitalization came to be applied the general term of "water," which had no very clear meaning but indicated that something was wrong and the public had to pay for it.

In an evil hour for the cause of railroad emancipation Congress was induced to order that a valuation be made of the physical properties and things owned, or supposed to be owned, by the railroad companies.

This was a piece of foolishness. To estimate the value of any railroad property was a long, tedious task. The valuators began at one end of the line and went through to the other, often taking years at the job, and when they got through values had changed so much that the work they had done at the beginning was out of date and worthless.

It was foolish also because physical value has nothing to do with the railroad question.

In many instances when the valuation was finished it showed that the railroad company owned more property than the total amount of its capitalization.

At once the railroad press agents, pen valets, newspapers, attorneys and propagandists sent forth a mighty shout together.

The railroads of the United States were not overcapitalized as the muckrakers and wicked anarchists had alleged. Look at the facts! They owned more property than their capitalization amounted to. Instead of being overcapitalized they had not capitalization enough. Here was the end of the old story about

"water!" There wasn't a drop of "water" in American railroad stocks.

Diligent reiteration backed with figures as to capitalization and physical valuation convinced the public.

Behold, then, the rout of the muckraker and the destruction of his illusions.

As a matter of fact, the physical valuation had no possible bearing on the question of "water" in the capital.

They might as well have counted the weeds by the roadbed.

For two reasons:

In the first place, a railroad is not entitled as a carrier to returns upon the value of what property it may own but only to returns upon the money actually invested in the actual enterprise of carrying the public and its goods.

In the second place, if the value of property owned is any basis for capitalization, it must be and is equally the basis for rates to be charged to the public. But the railroad company does not make the increase in the value of its property. That increase is made by increase in population. The larger the population, therefore, the higher the rates would have to be, a doctrine not merely absurd but utterly impossible.

Supose a man to go into a new western town, buy a corner lot for $100 and open a grocery store. In ten years the increase of the population in that town has caused the value of his lot to mount until it is worth $500.

Nobody pretends that this man has any right to charge more for his hams, teas and sugars because his lot is worth more.

But in those ten years the value of the property owned by the railroad in that region has increased from $5,000,000 to $10,000,000 and this $5,000,000 of increased value has been swept up into capitalization —stocks and bonds.

Then the railroad goes before the Interstate Commerce Commission and complains that on this capitalization it cannot with its present rates earn the interest and dividends. Hence it must increase its rates.

The difference, therefore, is clear enough. In one case the public pays for the increase of value which itself has created, and in the other case it does not.

It was because of the discovery of this increase in the value of railroad property that the press agents were able to announce that there was no water in the American railroad. Yet if the principle that a railroad is entitled to capitalize the value of its property should ever be carried out we should see some very strange things in this country.

For instance, two of the largest holders of white pine lands in this country are the Northern Pacific, whose ownership we have already examined, and the Southern Pacific.

As our timber supply diminishes, the value of these holdings is certain to increase until they shall be worth more money than the present total capitalization of these railroads.

If the theory of capitalized values has any merit, these railroads will be justified in adding to their capitalization the value of these lands and then demanding an increase of rates large enough to produce the revenue to meet the interest charges on that increased capital.

That would mean the doubling of all their rates.

The Northern Pacific, as we have seen, has already begun to do this.

Every year thereafter, as the value of the pine lands soared rates would soar no less until they reached a condition that would disturb or paralyze the ordinary business of life in all the regions where these railroads should be the chief means of transit.

This is the dilemma the theory of capitalizing values presents. There is no posible escape from it. If it is right to capitalize any railroad values, it is right to capitalize all railroad values, and there you are—on the rocks.

Railroad property bought in Chicago for $25,000 in 1856 is now worth $10,000,000. Next year it may be worth $12,000,000; ten years from now $25,000,000. If these increases are to be reflected in capitalization first and then in rates, the country's increase in population means its ruin.

The truth is, of course, exactly the doctrine with which we started, that the only just capitalization of a railroad company is the actual money actually invested in its enterprise as a carrier.

On this it is entitled to a just and reasonable profit.

Beyond such just and reasonable profit all returns from the enterprise belong to the public, whose highway the company has been administering and may best be delivered to the public that owns it in the shape of reduced rates for transportation.

We can see now how tremendous were the misfortunes we brought down upon our heads when we allowed this safe old rule to be discarded.

But as to the "water," the muckrakers and those

that insisted that American railroad stock was "watered" were perfectly right. Not a word in the report on physical valuation refuted anything they had ever said. For more than two generations the American railroads had been steadily at work increasing their capitalization by fictitious, fraudulent or illegitimate additions. Every dollar so added was "water"; every dollar of "water" added to the rate burdens and transportation troubles of the people.

To this day every melon that ever was cut by an American railroad is still in the capitalization and still collecting illegitimate revenue from the public.

2. That because of the unreasonable demands of the organizations of railroad workers and the foolish surrender of the government while it was operating the railroads, the wages of railroad workers were advanced to preposterous figures so that when the companies on March 20, 1920, resumed the operation of the nation's highways an impossible condition confronted them. The wage bill had grown so that an increase of rates was necessary. The railroad worker was paid out of all reason and proportion.

The facts are that the increases in the pay of railroad wages were not beyond the necessity created by the increased cost of living; that when all was done they were lower than the average increases secured in other lines of wage-earning employment; and that the most important of these increases were advocated by the railroad presidents and executives before they were allowed by the government railroad administration. This last fact is not generally known, but is the record, nevertheless. The railroad presidents and executives pleaded for increased wages because the

increases in other industries caused by the war were drawing away the railroad workers, and the roads were sorely threatened with a lack of men to make operation possible.

As to whether railroad wages ever reached in this country a level that could be called excessive or unreasonable, that can easily be determined. Mr. Basil M. Manly, who is the leading expert of the country on wages and wage values, has made an exhaustive study of this subject, and his findings make it look very different from the assertions of propaganda. He took the average earnings of all railroad employees year by year and translated them into the actual or purchasing value of the dollar, with this result:

	Average Annual Earnings of All Employees	Buying Power (Basis of Dollar in 1900)
1900	$ 567	$567
1907	641	538
1913	757	522
1917	1,000	520
1921 (Based on rates paid Jan.-June)	1,790	662
1921 (Based on rates paid July-Dec.)	1,575	599

That is to say, the pay of the average railroad worker in 1900 was less than $2 a day—a startling fact.

But it was not really much better in 1921, in spite of the increases. Mr. Manly, in his admirable work, "Are Wages Too High?" says of this:

"The mere fact, then, that the buying power of railroad wages in 1921 was $32 higher than the starvation wages of 1900 cannot be used to prove the ade-

quacy of present rates of pay. Furthermore, it must not be forgotten that these figures do not take account of the recent reductions in pay through the revision of working rules, the abolition of extra pay for overtime, and the illegal practice of sub-contracting maintenance, repairs, and even a part of operation. If we make proper deductions for these decreases it is absolutely certain that the average wages of all railroad employees today have no greater buying power—are of no more real value—than the miserly wages paid in 1900."

He then gives the following table, which should put an end to all misunderstanding on the subject of railroad wages:

BUYING POWER (IN DOLLARS) OF AVERAGE ANNUAL EARNINGS OF RAILROAD EMPLOYEES.

(BASIS OF PURCHASING POWER OF THE DOLLAR IN 1900)

	Engineers	Firemen	Conductors	Trainmen	Machinists	Trackmen	Telegraph Operators
1900......	$1,161	$662	$1,004	$604	$698	$311	$641
1907......	1,126	637	960	626	706	311	622
1913......	1,146	658	971	673	695	301	596
1917......	1,062	644	1,022	643	725	313	529
1921 (a)..	1,057	778	972	751	815	397	736
1921 (b)..	999	719	909	687	758	342	681

(a) Based on rates paid Jan.-June.
(b) Based on rates paid July-Dec.

On this Mr. Manly comments that the only gains in real wages have been secured by those that at the begining of the period were "so badly underpaid that

there was nowhere to go but *up*, while the better paid and more highly skilled have been steadily losing ground. The engineers, sometimes sneered at as the 'aristocrats of labor,' are worse off by $162, and the conductors by $95!"

The investigations of the Interstate Commerce Commission confirm Mr. Manly's findings. The Commission discovered that in July, 1921, the average earnings of all railroad employees, including executives, general officers, foremen and professional men, were at the rate of $1,572 for a full year. Excluding executives, professional men, general officers and the like, the actual railroad workers were receiving in July, 1921, $123 a month, or $1,476 a year.

This is $100 below the bare level of subsistence for a family of five, estimated in July, 1921, at $1,576 a year and about $700 below the "Minimum Comfort Budget" as ascertained by the United States Bureau of Labor Statistics.

Mr. Manly quotes these figures and then adds:

"Assuming that $1,576 a year, or $131 a month (equivalent to $600 a year or $50 a month in the values of 1900), is the bare level of subsistence for an American family in 1921, we discover that 932,140 railroad workers, or 57 per cent of the total number employed, were earning less than that amount, even when we include their overtime earnings.

"We have not reached bottom yet, for we find on digging deeper that 520,634, or 32 per cent of the total, are earning less than $100 a month with their overtime.

"And when we get down to rock bottom we find 217,167 track and section laborers earning only $74 a

month, or $888 a year. This $888 is worth in the values of 1900 only $340, or a little better than A DOLLAR A DAY!"

It was these men, the track and section laborers, earning only $74 a month, whose scanty wages were cut by the Railroad Labor Board in its reduction order of May, 1922—that dividends might be paid and interest assured on capitalization piled up in the way we have observed in all these chapters.

The Board urged these workers to accept the cut meekly "in a spirit of patriotic common sense," to enable the carriers "to get back upon their feet."

But for exploits such as we have described here and the like of which darken every page of American railroad history the carriers would never have been otherwise than on their feet.

To assume that the workers have some kind of patriotic duty to endure with patient resignation the losses caused by these plunderings is going pretty far in the way of hypocrisy.

Nothing was said about the patriotic duty of the men that made millions from these operations to return any part of the loot that wrecked the roads, and until there is some movement in that direction I think we can well be spared any remarks about the patriotic duty of a section hand to rear his family on $1.80 a day and shut his patriotic mouth.

3. That the government ownership of railroads, approved by the experience of other countries, has been tried out here while the war was on and found to be a failure.

There has never been any government ownership of railroads here except in the sense that all highways

properly belong to the government. There were twenty-six months of government operation under conditions that amounted to a national scandal. The government, by reason of the action of a Congress largely made up of railroad attorneys, was compelled to pay the companies an annual rental far above their value as carriers and above the average earning power of most of them, and when under these conditions and the abnormal conditions brought about by the war there was a deficit from the operation, the railroad press of America daily emphasized the fact in black type as proof that government ownership was a failure.

4. That government operation of the railroads was wasteful, extravagant and incompetent.

This is not the place to go into the discussion of this subject, which could be handled only in a separate volume. But the facts are, as shown conclusively and forever by the testimony of Mr. McAdoo and Mr. Hinds, that the government administration of the railroads was vastly more economical, efficient and competent than private management had ever been.

5. That the government in the period of its administration spent nothing on maintenance of way and nothing on keeping up the locomotive and car equipment, and therefore as soon as the companies resumed the control of the property they must spend enormous sums on restoring the lines to a state of efficiency.

"Repairing the wreckage the government had caused" was the phrase usually applied to this, and ingenious cartoons were printed in the railroad lackey press illustrating the appalling size and difficulties of the job. There never was more breath-taking im-

pudence. As a matter of fact, there was no wreckage. The government, in its period of operation, greatly improved the physical condition of the railroads. In the period of government administration the expenditures for maintenance, compared with the total expenditures for operation, reached the highest percentage ever known.

Under the false belief that the railroads had been skimped for maintenance under the government administration the country tolerated, in the iniquitous Esch-Cummins act, a provision that for six months after the resumption of company control the government should guarantee the companies' expenditures for repairs and replacements. If the facts as to the charges made by the railroad companies under this provision ever become generally known there will be a greater public scandal than attended the Credit Mobilier and Whiskey Ring exposures, fragrant in history.

5. That whatever may have been the iniquities of railroad exploiters of other days nothing can be done now about their misdeeds and the results thereof.

This assumes the theory of the "innocent purchaser." The fictitious capital created by all these wreckers has passed long ago from their hands and been bought in good faith by the general public—mostly, it appears, widows and orphans. Oh yes!—and school teachers. Poor school teachers, widows and orphans are the real owners of the railroads of the United States. Would you deprive them of their little savings? They knew nothing about the performances of Jay Gould and Collis P. Huntington and ought not to be punished for them.

This has been dinned so industriously into the American consciousness that it probably never will come out. It is one of the biggest fakes ever put over. How many "innocent purchasers" of fictitious railroad securities there are may be gathered by viewing a few sample facts.

All the railroad stocks of all the United States are held in 640,000 holdings. Fifty-two per cent of the total stock is held by banks, trust companies, trustees, voting trusts and other railroads. Of the rest, the majority of the holdings are in lots of considerable size, indicating that they are held by persons of means.

Banks, trust companies and other railroads are not much in the way of objects of commiseration as "innocent purchasers."

As to the remainder, the case is clear. Supposing them to be, all of them, widows and orphans and school teachers in direst poverty, it would be money in the pocket of the United States to pension them all on the basis of thrice their present income from their investments if thereby it could end the impositions at present practiced upon it by the private control of its public highways.

It is clear from all this that the present system of administering our highways is coming to an end. It will not work. The plan of employing corporations to do this work for the State has been proved to be not a good plan. Invariably the result is that the corporation exploits the public for the benefit of a few men that secure the control of the enterprise.

It has in it the seeds of its own death. By no device of regulation or supervision can it be kept from overcapitalizing itself, and the ultimate and sure result of

overcapitalization is smash—after soaking the public for intolerable tribute.

What shall we do with our highways, then?

There is nothing to do with them except to return them to the public, to which they rightfully belong.

Propaganda replies to this that private ownership can do everything better than the government can do it.

This is another impudent fake. The truth is that government can do everything better than private ownership can do it.

Private ownership does not manage the railroads of this country well or economically, but very badly and wastefully.

Mr. Justice Brandeis, when he was a publicist and not a Supreme Court Justice, said that the railroads of the United States wasted a million dollars a day.

The railroad executives, with loud laughter, denied the charge and said it was the word of a crazy man.

Then Mr. Brandeis proved his assertion and showed that he had underestimated the waste.

The war control of the railroads followed and showed again that he was right. Showed it in spite of the extortionate rentals the government was forced to pay.

When Mr. James J. Hill, a short time before his death, testified that seven billion dollars would be required to put the railroads of the United States into a condition to handle their traffic he surrendered the whole cause of the private ownership of public highways.

The government never made a hash of anything fit

to be compared with the gigantic failure thus confessed.

It is true, of course, that to the public resumption of the public's highways there is now this objection, that we ought not to load the future with all this fictitious capitalization.

If we buy with the bonds of the United States, for example, all this water, we simply make it a good and sound investment on which the next generation will continue to pay the interest as we are paying it now.

But we are not obliged to do this.

Return the highways to the people, not on the basis of their physical value, which is all bosh, but on the basis of the average market value of their stocks over a period of years, or on the basis of the actual money actually invested in the enterprise.

Stockholders' money, that is; not the public's.

No difficulty is involved in this. A few hours' review of the financial history of any railroad will show what investments have been real and what have been phony. Pay for the real, cancel the phony, and resume the property.

Payment in government bonds bearing the low rate of interest that the government alone can command is the obvious plan.

However reactionaries may rave and propaganda may object, to something like this we are coming.

The present arrangement about our railroads is for the public a huge and costly failure. The only benefits derived from it are reaped by a handful of fortune makers. It is bringing our highways to a condition in which they will not be workable. Without highways the nation cannot exist. No other power is able to res-

cue us from such an unspeakable disaster except the power of government.

The only question really involved is whether the public, which commands the government, will order this to be done now on the basis of reason and right or wait until more losses, more tribute, more and bitterer conflicts, more melons, more lootings, more graft, more wrecks, more of the grievous daily burdens the present mad system lays upon us shall have driven us tardily and with a huge cost to the course of sanity we might as well adopt now.